Performance

UK Export Finance performance overview

Who we are

UK Export Finance (UKEF) is the UK's export credit agency and a government department, strategically and operationally aligned with the Department for International Trade.

UKEF is the operating name of the Export Credits Guarantee Department.

Our mission

We advance prosperity by ensuring no viable UK export fails for lack of finance or insurance, doing that sustainably and at no net cost to the taxpayer. We help UK companies:

- **win** export contracts by providing attractive financing terms to their buyers
- **fulfil** export contracts by supporting working capital loans and contract bonds
- **get paid** for export contracts by providing insurance against buyer default

How we do it

We provide insurance, guarantees and loans where the private sector will not, backed by the strength of the government's balance sheet. We also help companies find support from the private sector. Our work means that:

- more UK companies realise their ambitions for international growth
- more jobs in the UK are supported
- overall UK exports are higher

We exist to complement, not compete with, the private sector and work with around 100 private credit insurers and lenders. We help to make exports happen which otherwise might not, helping UK exporters and their supply chains grow their business overseas. In this way, we provide security of support through economic cycles and market disruptions.

Performance

This section provides a summary of UK Export Finance, its purpose and structure, its financial performance relating to its objectives, organisational risks and focus for the year ahead. UK Export Finance is a self-funding, income generating department and its work has been guided by its financial objectives, which are outlined on page 33.

2021-22 in figures

£7.4 billion
business supported

£4.7 billion
for overseas projects

Pledged Net Zero by
2050

£3.6 billion
for sustainable projects in 2021

£1.4 billion
COVID-19 support (TCRF)

545
companies directly supported

Annual milestones

Trade Finance Global Export Credit Agency of the Year (2021)

2021

April
Ended support for new overseas fossil fuel projects

May
Issued our first ever General Export Facility to West Midlands technology business Simworx

Won **TXF Renewables Export Finance Deal of the Year** for Changhua 1 & 2a Offshore Wind

June
Signed a green partnership with ORE Catapult to promote the expertise of the UK offshore wind sector

Provided our first Standard Buyer Loan Guarantee to Northern Irish manufacturer CDE Global

Published our first Task Force on Climate-related Financial Disclosures report

July
Provided bond support to First Subsea Ltd, allowing the Scottish energy firm to transition to renewables and secure £12 million of export orders

Won **TXF Healthcare Export Finance Deal of the Year** for NMS Hospital Project Côte d'Ivoire

August
Backed a landmark £430 million green transition loan for Wood Plc to enhance its clean growth exports and develop green jobs

Announced a new partnership with the Central American Bank for Economic Integration (CABEI) to support projects in the region

September
Committed to reaching net zero in our first Climate Change Strategy

Issued our first clean growth loan to support completion of Bee'ah's award-winning green headquarters in Sharjah

October
Aligned OECD export credit agencies behind new climate initiative to end export credit support for unabated coal-fired power plants

November
Launched new and enhanced products in the Export Strategy

At COP26, helped secure a commitment by 39 of our peers to join us in ending support for new fossil fuel projects

Provided £217 million in financing for a 1.3GW solar project in Türkiye, one of the largest in the world

December
At our 4th annual customer conference, signed a new partnership with General Electric and accredited the first non-bank lender, Newable, to our General Export Facility

Increased the cover limit for Ukraine to £3.5 billion to support priority sectors including defence

Received 9/10 for our product offering from the British Exporters Association

2022

January
Announced over £500 million of support in Africa at the Africa Investment Conference

Supported Jaguar Land Rover's electric vehicle plans with a £500 million Export Development Guarantee

Achieved our highest-ever score for employee engagement in the Civil Service People Survey

February
Boosted the Scottish fishing industry with a £15 million General Export Facility to Peterhead-based Denholm Seafoods

March
Won **TXF Rail Transport Export Finance Deal of the Year** for Ankara-Izmir High-Speed Railway

Elizabeth McCrory who is Senior Export Finance Manager for Northern Ireland

Chief Executive's report

In another year of economic uncertainty, UKEF has once again demonstrated its worth – adeptly deploying our expertise to unlock finance, support exporters and promote British businesses while protecting the interests of the taxpayer.

Louis Taylor
Chief Executive Officer

The global trading landscape is changing. Supply chains are still recovering from pandemic restrictions to the movement of goods and people, while Russia's invasion of Ukraine will have lasting economic and geo-political impacts. In spite of this, global trade is rebounding, reaching a record of $28.5 trillion in 2021 – a 25% increase on the previous year.[1]

We have been agile and responsive to the market's needs, issuing £7.4 billion (£8.8 billion pre-reinsurance) in support to exporters of all sizes in 2021-22. This is a historically large number, especially absent any support for overseas fossil fuel projects, exceeded only by 2020-21 because of the emergency support businesses needed throughout the COVID-19 crisis.

The exports we support have been levelling up opportunities across the UK for over 100 years, with our support touching thousands of companies every year, both directly and indirectly. Last year alone, we estimate we supported over 72,000 UK jobs and added a gross value of £4.3 billion to the economy. This means more money in people's pockets and continued job security for British workers, all in support of the UK's international ambitions.

Finance makes trade happen, which is why UKEF's finance offer remains at the heart of the government's new Export Strategy – including enhancements to our products. In 2019, we revolutionised the way we support exports by offering general working capital support through the Export Development Guarantee (EDG). Since then, this immensely successful product has provided £10.6 billion in support to some of the UK's largest employers, including British Airways, Rolls-Royce and Nissan – businesses that each account for tens of thousands of UK jobs across the country.

We have now gone one step further, expanding EDG eligibility to:

- UK companies with credible plans to export
- overseas firms seeking finance to establish themselves in the UK and export from our shores

Inward investment stimulates economic growth and job creation. By backing foreign companies to come to the UK, we can boost the UK supply chain in high-growth sectors. Stimulated to grow, those supply chain businesses may themselves go on to export.

A greener future

2021 was also the year where we led the world of export finance into a greener future. In our new Climate Change Strategy, we committed to reaching net zero carbon emissions by 2050, becoming one of the first export credit agencies (ECAs) to launch a net zero strategy. Not only is this absolutely vital for our planet, but it is also in the UK's interest as we develop supply chains in net zero technologies.

Our mandate is to support viable UK exports, but sustainability is increasingly at the heart of the viability assessment. UKEF's revised mission statement, which I am pleased to announce here, makes explicit the increasing centrality of sustainability to our business.

This is why we used our platform at the 26th Conference of the Parties (COP26) in Glasgow to bring our peers and private sector institutions along with us. Following our lead, the private market has pledged $130 trillion of capital to transition the global economy to net zero by 2050, while 39 other ECAs and multilateral development banks joined us in pledging to end support for fossil fuel projects from the end of 2022.

We are particularly focussed on clean growth and renewable energy exports. In 2021, we increased our support for sustainable and clean growth projects to £3.6 billion, according to TXF's ranking of export credit agency supported deals. A £1.7 billion loan was secured for a high-speed rail line in Türkiye with UKEF backing – our largest ever civil infrastructure deal – which will provide a faster, lower carbon alternative to current air and road routes.

And there is more to come. We have a multi-billion-pound pipeline of deals in countries around the world – with significant opportunities across clean growth sectors.

Our revised mission statement

We advance prosperity by ensuring no viable UK export fails for lack of finance or insurance, doing that sustainably and at no net cost to the taxpayer.

What do we mean by "prosperity"?

As an export credit agency and a government department, delivering prosperity means supporting growth in exports and investment, bringing jobs and better living standards to communities across all nations and regions of the UK and internationally.

By helping to fill the financing gap in global trade, we open up international opportunities for UK businesses, enable them to scale up and internationalise, and develop supply chains and infrastructure around the world. All this underpins prosperity at home and abroad through the economic cycle.

What do we mean by "sustainably"?

For UKEF, undertaking our business sustainably means taking account of factors beyond the purely financial. This includes relevant laws and regulations, government policies, international agreements which apply to the operations of export credit agencies, good international industry practice and standards relating to – for example – environmental, social and human rights impacts, climate change, debt sustainability and financial crime.

We recognise that our activities can contribute to financial and non-financial sustainability impacts through the support we provide to UK exporters. UKEF is committed to reducing the negative sustainability impacts associated with our financing activities, promoting high standards of environmental and social performance, and maximising opportunities for positive impacts.

UKEF support helped Rochdale-based distributors Forrest Fresh Foods overcome COVID-19 supply chain challenges

Supporting small businesses

We support companies of all sizes, but the majority of the companies that we support with a UKEF product are small businesses. 81% of the companies we supported directly with a UKEF product in 2021-22 were for small and medium-sized enterprises, with our General Export Facility (GEF) providing a welcome boost.

Since we made GEF available in March 2021, we have issued over £180 million of support using the scheme to unlock almost £250 million of working capital loans, boosting smaller businesses across the land: from online retail in South Wales and steel manufacturing on Teesside to offshore wind in Aberdeenshire. We have recently onboarded our first non-bank lender to this product – widening access to GEF even further, levelling up opportunity and driving prosperity across the UK.

Strengthening connections

We are adapting the way we do our business to meet today's realities and tomorrow's challenges. Our new Digital, Data and Technology Division is boosting our digital capability, placing the customer at the centre of everything we do. The recently formed Strategy, Policy and Climate Change Directorate is making sure we fully address the risks and opportunities created by climate change and have the right long-term strategy in place to fulfil our mandate, while strengthening our collaboration across government.

Working with HM Treasury, we extended the use of our Temporary COVID-19 Risk Framework (TCRF) through to July 2022. This boost to our risk appetite limits allows us to support customers whose liquidity and cash flow profiles had been badly affected by the pandemic's economic fallout. Through TCRF, we have provided £8.2 billion since its inception to help exporters keep trading, protecting jobs at those firms and their suppliers.

We have connected more closely with our sister financial institutions, the British Business Bank and UK Infrastructure Bank, to gain a deeper understanding of how our offers align and complement one another. Similarly, we have deepened our collaboration with the Department for International Trade (DIT). As sister departments, we work hand-in-hand to present a truly joined-up service for British exporters – cooperation strengthened by the Memorandum of Understanding (MoU) signed in March 2021 (see page 130).[2]

We are also intensifying our work with the Foreign, Commonwealth and Development Office, collaborating effectively to promote Global Britain and UKEF's finance offer overseas; and working closely with the Department for Business, Energy and Industrial Strategy to support the net zero and decarbonisation agenda.

As a newly independent member of the Organisation of Economic Co-operation and Development, we intensified our cooperation with other ECAs and their guardian authorities to preserve a level playing field globally. We pushed forward the review of the Coal-Fired Power Sector Understanding and worked with the UK government's COP Unit on the Statement on International Public Support for the Clean Energy Transition to help end the global financing of unabated fossil fuels through public funds, including export credits, by the end of 2022.

How we calculate the number of exporters we have directly supported

By providing insurance, guarantees and loans, and by helping companies find the support they need from the private sector, UKEF makes exports happen which might not happen otherwise.

Our direct support therefore includes firms that are paid directly by a drawdown from a UKEF facility, where the buyer is sourcing goods and services from the UK as a result of UKEF's intervention.

For companies to be included in our 'directly supported' figure, we require evidence of them securing business on projects we are supporting. This is included as a condition of our support when we agree transactions for overseas projects.

We also include private market assists when UKEF engagement has had a material contribution to an export receiving support from the private sector.

The way ahead

We have achieved so much in recent years, but there is much more to come. Our role in government has never been greater. And with the continued expansion of our international network, which now stands at 18, with representatives on every continent, our voice overseas has never been stronger.

Thanks to the 20% increase in our budget in the 2021 Spending Review, we have the confidence, capacity and capability to continue to manage sustained higher business volumes and increasing complexity in our work.

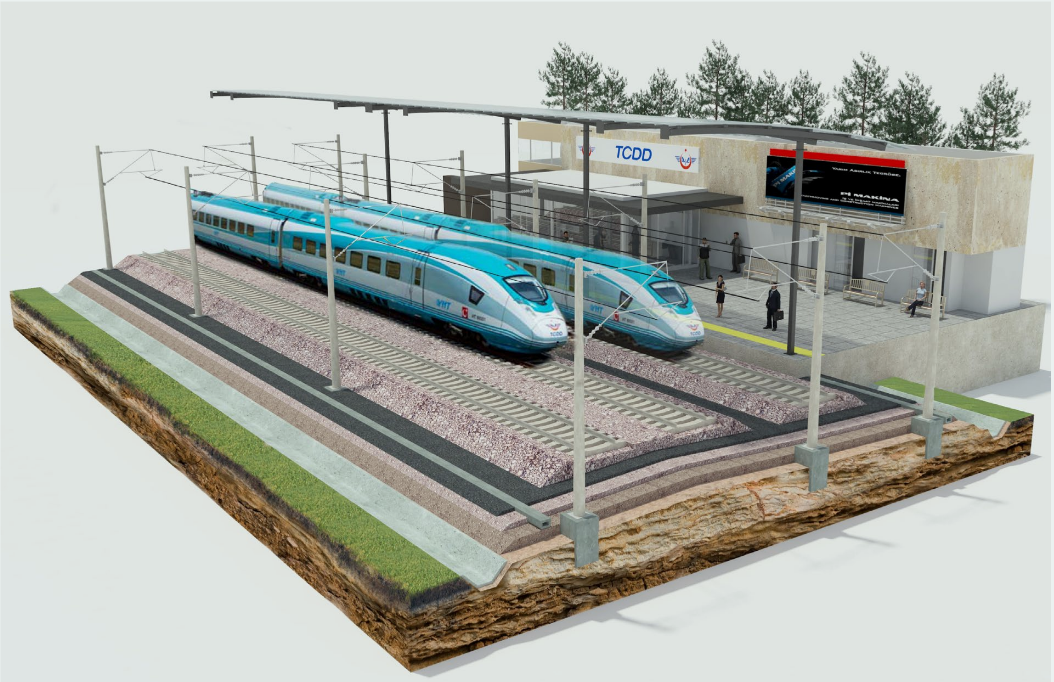
We're also vigilant about the risks ahead but are confident that we have the controls to manage them. Overall, this year, our performance in managing financial risk was extremely strong as we protect the interests of the UK taxpayer.

With access to manufacturers, airlines, remarketers, and industry players we have made huge strides on the 115 aircraft in our portfolio which were in insolvency protection in June 2020. Of those, nearly 100 have been successfully restructured. Paying out claims when they are needed while recovering what we are owed brings value to our guarantee. It proves our model works.

All of this success is underpinned by the hard work, diligence and expertise of UKEF staff. Their commitment to making UKEF the best ECA in the world continues to pay dividends, helping UK companies trade in a volatile landscape, defending our portfolio and adapting our offer to support the technologies of tomorrow.

Case study

Building a high-speed railway in Türkiye



In 1856, the Ottoman Railway Company opened Türkiye's first railway to improve trade routes to its ports. One hundred and sixty years later, a new high-speed rail line aims to enhance these vital trade routes once again, with a £1.7 billion loan backed by UKEF through its Buyer Credit Scheme.

This is a landmark deal with strong green credentials. It is also UKEF's largest ever civil infrastructure loan guarantee.

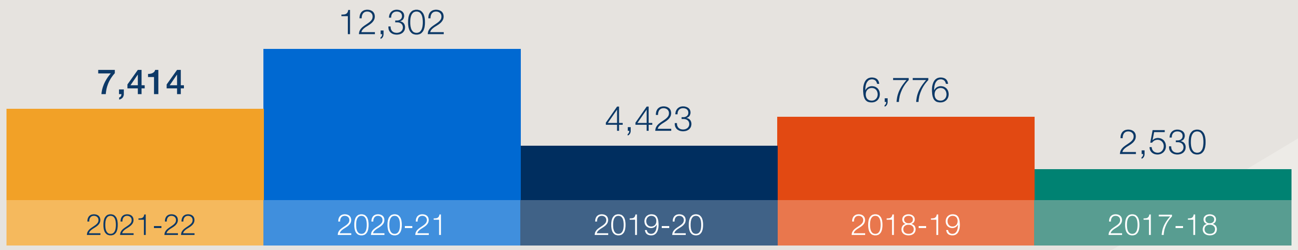
The project is part of Türkiye's plan to transform its high-speed rail network. The new 503-kilometre electric-powered railway line will connect the capital, Ankara, to the port city of Izmir. When complete, the new line will cut journey times, making it the most convenient option for travellers while helping to fulfil the climate change commitments Türkiye made at COP26.

UKEF's involvement has secured half a billion pounds' worth of business for UK suppliers, who will be exporting everything from the rails, points, signalling and communications equipment to vital insurance and freight services.

Reinsurance support was sought from international export credit agencies SACE in Italy, SERV in Switzerland and OeKB in Austria, to reduce the risk to the UK taxpayer, making UKEF's total liability worth close to £1.1 billion.

Financial overview: 5-year summary*

Business supported (£m)



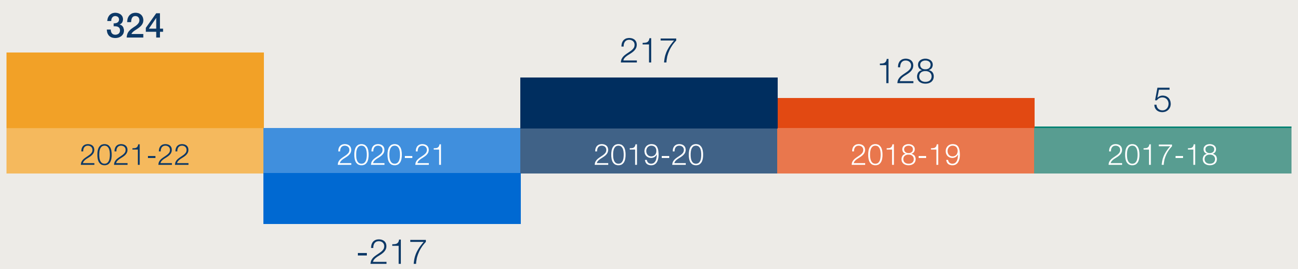
Value of commitments (£m)

Premium income earned (£m)

Premium income issued (£m)

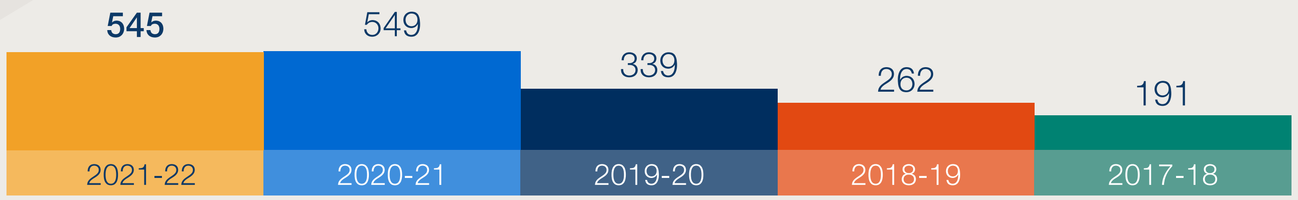
Claims paid (£m)

Net operating outturn (£m)

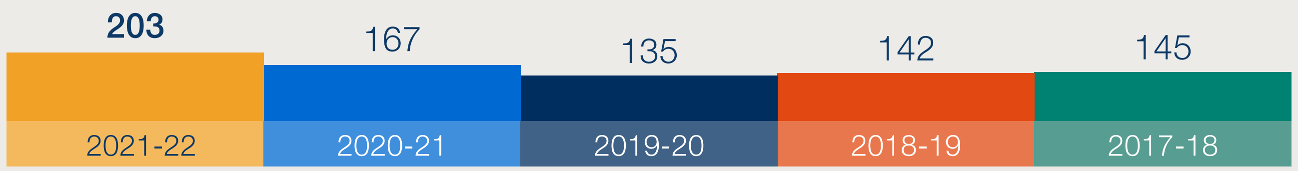


Non-financial indicators: 5-year summary*

Total exporters supported, of which:

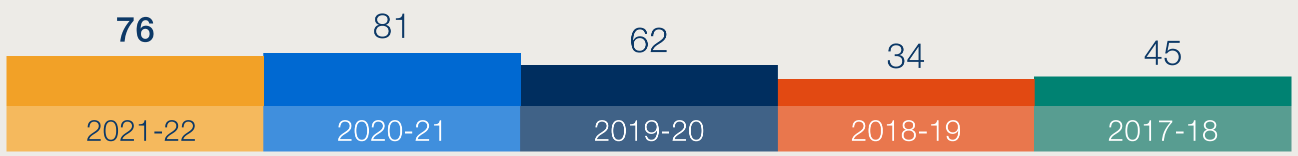


Direct support under a UKEF product



Tier 2 suppliers

Private market assist



Direct support and private market assist

Introductions to other sources of support

Facilities issued

* definitions for each indicator can be found in the glossary on pages 241 to 245.

2021-22

How we support jobs and the economy

UKEF's contribution to the UK economy is measured through direct and indirect impacts.

Direct impact relates to the jobs and economic activity (production of goods and services) supported with the direct beneficiaries of UKEF's loans, guarantees and insurance.

Indirect impact captures the jobs and economic activity supported in the wider UK supply chain. Suppliers to the direct beneficiaries of UKEF's financial support will employ staff and contribute to gross value added, and will also use suppliers in turn.

Direct impact	Indirect impact (supply chain)	Total impact
UKEF facilitates exports, which supports jobs and economic activity within the beneficiary company.	The beneficiary company purchases inputs from suppliers who employ staff and support economic activity in the UK.	Economic activity Wages Profits Employment

72,000

Full-time equivalent (FTE) jobs

= 2,000 jobs

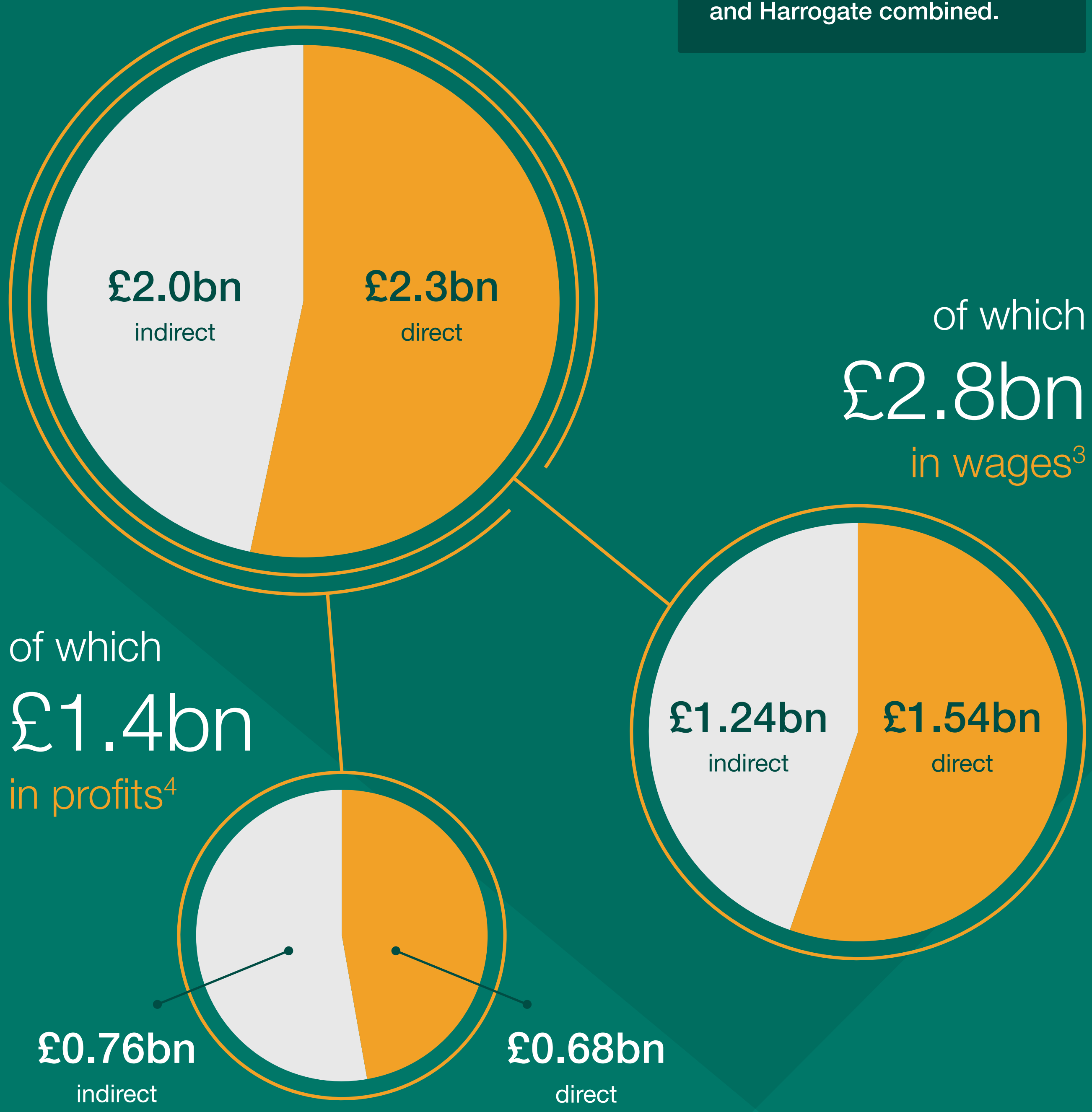
32,000 indirect **40,000** direct

UKEF's economic impact analysis[1] uses a similar methodology as US EXIM. See the analysis for more about the methodology, definitions and a full breakdown of GVA, including net taxes on production.

£4.3 billion

gross value added[2]

UKEF's support contributed up to £4.3bn to the UK economy in 2021-22, economic output of Darlington and Harrogate combined.



1 UKEF. Economic impacts of our support, 2021 to 2022. July 2022. [gov.uk/government/publications/uk-export-finance-economic-impacts-of-our-support-2021-22]

2 Economic activity is measured by "gross value added" (GVA). This is the economic value generated by the production of goods and services by a firm, industry or sector. It is the value of the goods and services produced minus the cost of all intermediate inputs and raw materials. It can also be measured as the sum of incomes (wages and profits) generated by UK resident individuals or firms in the production of goods and services.

3 Wages refer to "compensation of employees" which is defined as the total benefits or remuneration received by employees. This includes wages and salaries, but also employers' social contributions like pensions.

4 Profits refer to "gross operating surplus and mixed income". Gross operating surplus is the portion of income or value derived from production by firms and is broadly analogous to profits. Mixed income is the surplus earned by the self-employed, i.e. share of value not going to paid employees.

Supporting exports through the trade cycle

Net operating profit:

- 2021-22: net operating profit of £324 million for the year ended 31 March 2022, compared with a net operating loss of £217 million the previous year
  - FX-adjusted net operating profit of £279 million

This change is primarily due to improvements in outlook and performance for UKEF's existing portfolio, which was hit heavily by the coronavirus (COVID-19) pandemic last year, especially in the aerospace sector. It is set against many years of low claims and operating profits which will cover this cost over the business cycle – as shown in the graph on page 26.

Many of the loans we support by providing guarantees will be repaid over more than 10 years. In the event of defaults, we will seek to make recoveries. This means that final business losses, as a result of unrecovered claims paid, can take many years to assess.

For this reason, it can be illuminating to assess our performance 'through the business cycle'. This accounts for the way our business levels and claims rise and fall depending on the impact of market disruptions on UK trade. For example, claims payments and recoveries reported in any single year actually reflect the performance of business exposures written over a longer period of time.

UKEF acts as a guarantor or insurer under its export guarantee and insurance policies, and pays claims in a timely manner to protect its customers from financial loss. UKEF has protected its customers this year – as we have done in previous crises – as both demand for export insurance and claims increased.

Pricing of risk

We support UK exporter competitiveness through charging only the lowest premium rates permissible, subject to meeting our financial objectives and aligning with our international obligations, most notably the minimum rates set out by the OECD. Our pricing methodology is described in more detail on page 61.

Our accounts

UKEF currently operates 6 accounts (business segments), with each defined by the nature of business supported by the department.

Account 1 relates to guarantees and insurance issued for business before April 1991, and insurance issued by the Insurance Services Group of UKEF (which was privatised on 1 December 1991) for which UKEF retains all contingent liabilities.

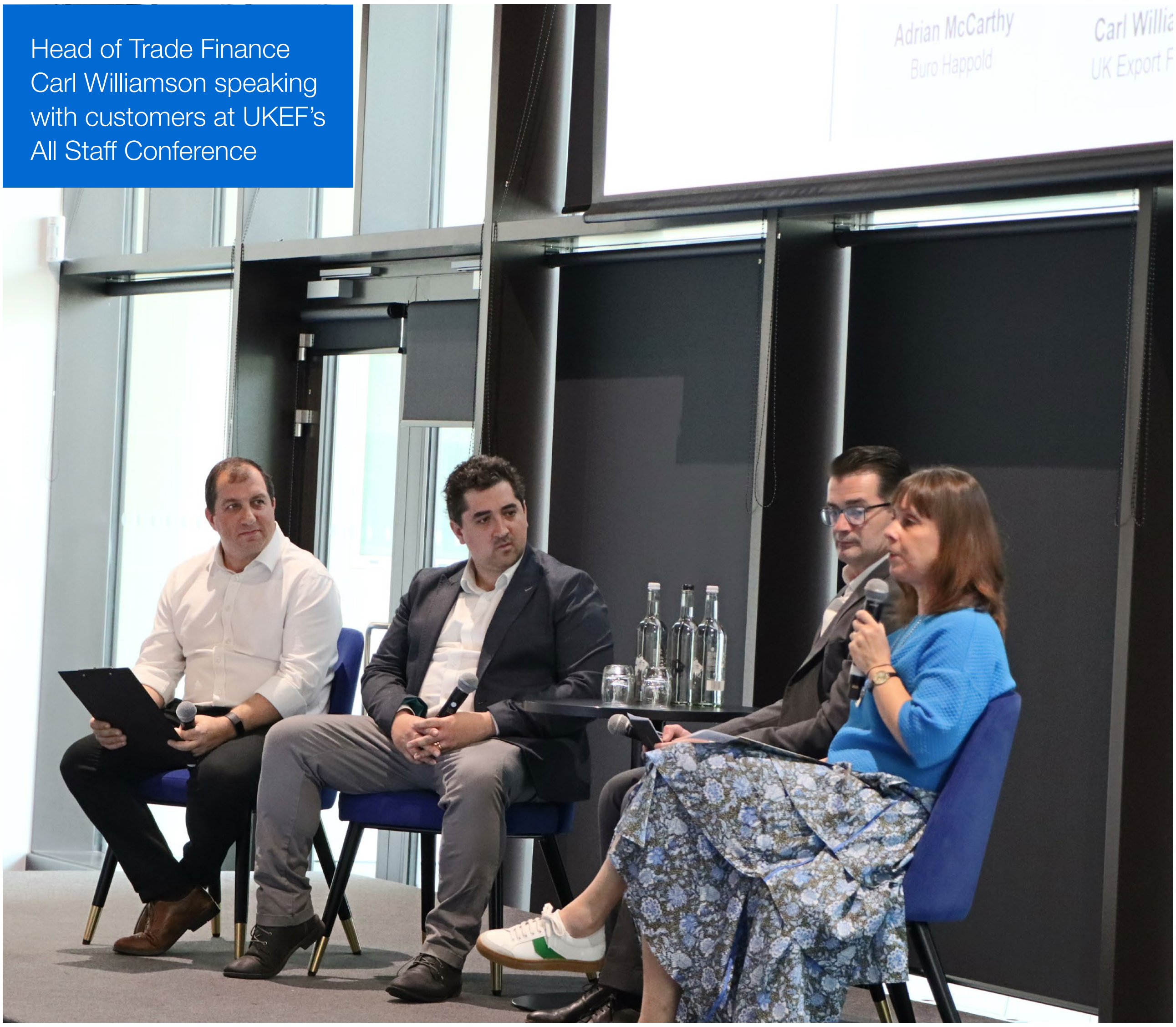
Account 2 relates to the credit risk arising from guarantees and insurance issued for business since April 1991.

Account 3 relates to guarantees and loans issued for business since April 1991 on the written instruction of ministers, which UKEF's Accounting Officer had advised did not meet normal underwriting criteria.

Account 4 relates to the provision of Fixed Rate Export Finance (FREF) to banks (now closed to new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements.

Account 5 relates to the provision of direct lending (in the normal course of business) since 2014.

Account 6 relates to all business underwritten and booked under the Temporary COVID-19 Risk Framework (TCRF – approved by HM Treasury since 2 April 2020).



Head of Trade Finance Carl Williamson speaking with customers at UKEF's All Staff Conference

Historical financial performance

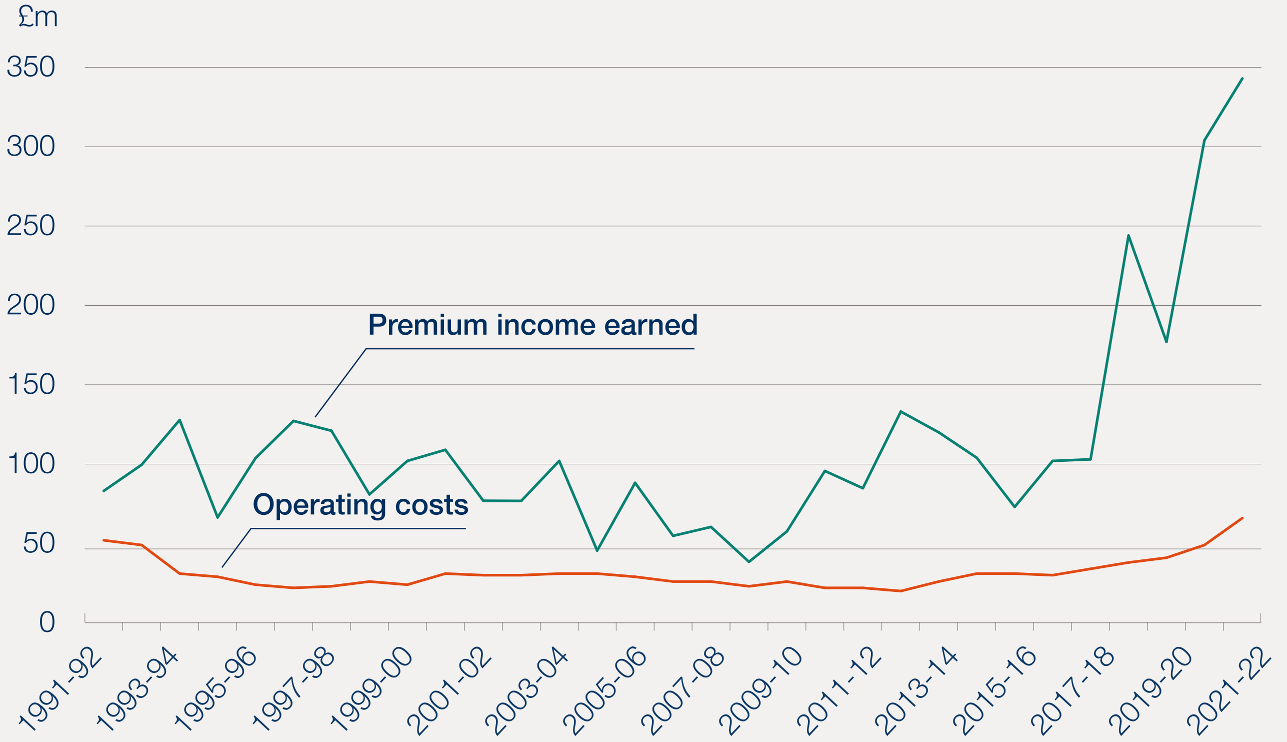
We take on risk to stimulate UK exports. So when a crisis hits, claims are made on some of our guarantees and insurance policies.

We've paid out more claims in the last two years than we did in the previous 12 years combined. But through our experience, preparation by collecting premium income when claims were low, and effectively recovering what we're owed, we still operate at no net cost to the UK taxpayer.

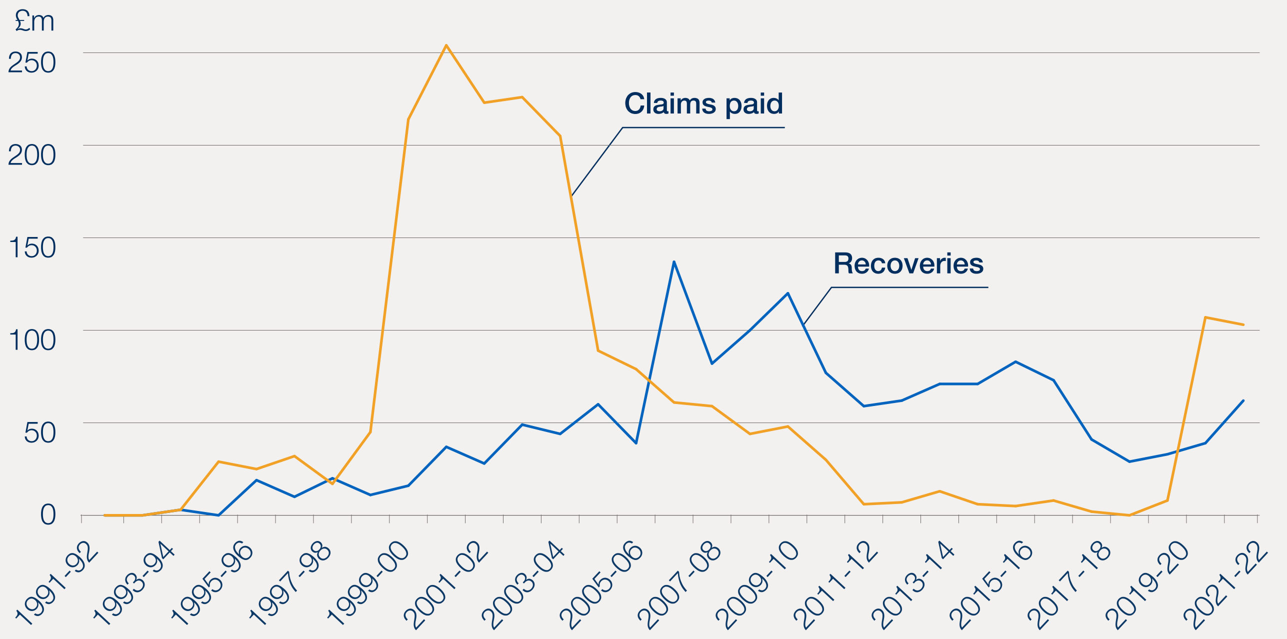
Both our trading performance and cash flow have been strongly positive since 1991, enabling UKEF to make a positive contribution to the Treasury. UKEF has recovered the cost of every claim made against it on a portfolio basis and returned over £2 billion to the Treasury.

Financial performance since 1991

This graph shows the operating costs of the department as compared with the premium earned since 1991 with premium covering running costs over this period.



This graph shows both the mismatch in timing between the payment of a claim and then the eventual recovery but also that UKEF has since 1991 effectively recovered all claims.



Note: To allow for reporting on a consistent basis over this historic period, these graphs refer to principal recoveries from account 2 only, which is UKEF's main business account in operation since 1991. All the data is sourced from UKEF's published Annual Report and Accounts.

How we delivered in 2021-22

Supporting a Global Britain

What we said we would do	What we did
Support exports from companies of all sizes, enabling them to take advantage of new and existing Free Trade Agreements	Provided £7.4 billion for UK exporters, 81% of which were SMEs
Build our business pipeline through our marketing and communications activities, and through the appointment of new International Export Finance Executives (IEFEs)	Appointed 5 new IEFEs in the Middle East, Europe and Africa and developed a rich pipeline of deals worth billions of pounds
Recruit and embed our new stakeholder engagement team to grow relationships with the private sector and other ECAs	Set up a new External Affairs team, increasing engagement with Business Representative Organisations, banks and ECAs to better support UK exporters

Recovering from COVID-19

What we said we would do	What we did
Optimise the use of our Temporary COVID-19 Risk Framework (TCRF), which allows us to continue providing finance to customers that we would have supported before the pandemic	Deployed £1.4 billion in 2021-22 (in addition to £6.8 billion last year) of our remaining TCRF capacity to help exporters continue selling to their customers
Collaborate across Whitehall to support the government's trade programme, particularly in priority sectors including food and drink, technology and digital, and renewables and clean growth	Fed into 7 cross-government strategies, including the Export Strategy, Innovation Strategy and National Shipbuilding Strategy, to make sure our offer is well understood Researched priority sectors to make sure our marketing and product development can meet their needs
Recruit staff with the right skills in the right roles to make sure we continue to offer the best possible service to our customers	Strengthened the capability of functions including Underwriting, Strategy, Policy & Climate Change, and Digital, Data & Technology

The Union and levelling up

What we said we would do	What we did
Collaborate with the private sector and across government to improve our small business offering, and fully deploy the new GEF to support a wider range of SMEs	Provided over £180 million of support through GEF since its launch – 92% to SMEs
Embed a new export finance manager (EFM) structure to make UKEF support more easily available across the UK	Organised EFMs into 3 regional groups to provide a better service to our customers
Improve our digital customer journey with a refresh of our online presence and roll out enhancements to the Digital Trade Finance Service	Restructured our approach to digital, creating a user-centred design team to put our customers at the centre of all we do Transformed the Digital Trade Finance Service – this is due to be launched this financial year

Backing clean growth

What we said we would do	What we did
Work closely with the COP26 team to make sure the government's trade finance offer is embedded in their stakeholder engagement	Delivered the government's international fossil fuel policy objectives, culminating in a joint statement by 34 countries and 5 public finance institutions committing to end support for the fossil fuel sector by the end of 2022
Continue to seek out opportunities for UK companies to contribute to low-carbon projects	Provided £3.6 billion for sustainable projects in 2021, unlocking the potential of the UK supply chain (up 50% versus 2020)
Develop and implement a new Climate Change Strategy and support the government's Global Investment Summit	Committed to reach net zero by 2050, and to provide international leadership on climate change, in our Climate Change Strategy, published in September 2021

Climate risk disclosures and supporting renewable energy

What we said we would do	What we did
Make climate-related financial disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD)	Made our first TCFD report in last year's annual report and provided a more detailed disclosure this year (see page 97)
Promote and market the Clean Growth Direct Lending Facility and Transition EDG	Provided our first clean growth direct loan to Bee'ah for their new green headquarters, provided the first Transition EDG to John Wood Group to aid its move towards renewables and announced extended EDG repayment terms for green economy exporters

Great place to work

What we said we would do	What we did
Deliver the wide-scale recruitment outlined in our Spending Review 2020 settlement in line with the resourcing plan	Ran 208 recruitment campaigns, increasing total headcount to 492, plus another 23 campaigns for positions to start in 2022-23
Launch new diversity & inclusion and wellbeing plans and work closely with staff representative networks to reduce inequality in pay and reward	Launched the plans and reported an increased proportion of new hires who identify as female (51%), from an ethnic minority (39.8%) and having a disability (5.6%) Saw staff engagement increase from 71% to a record 74% in the Civil Service People Survey
Continue to make sure our staff have the right tools, skills and resources to do their jobs through the smarter working project and learning and development plan	Invested in new office equipment to provide staff with the resources they need for effective and efficient hybrid working Delivered 15,184 hours of staff training to enhance their skills and experience

The year ahead

Every year, the Secretary of State for International Trade publishes a letter outlining her priorities for UKEF for the year.[3] In line with UKEF's Spending Review commitments, her 5 main expectations for UKEF in 2022-23 are as follows.

1

Implementing the Export Strategy: made in the UK, sold to the world

In 2022-23, we will:

- Work closely with other parts of government to develop an innovation-to-export pathway that supports businesses to commercialise quicker
- Increase awareness of UKEF's product offering
- Ensure a joined-up and coherent cross-government proposition that meets the financing needs of British businesses

2

Maritime, life sciences and clean growth sectors

In 2022-23, we will:

- Increase focus on maritime and life sciences sectors so that the UK can better support those growing industries to export around the globe
- Expand support for clean growth sectors to help build the UK supply chain, accelerating the global green transition
- Develop interim portfolio decarbonisation targets and more robust climate-related financial disclosures

3

Global Britain

In 2022-23, we will:

- Continue to influence our peers to strengthen the Coal-Fired Power Sector Understanding and modernise the OECD Arrangement to help preserve a level playing field for British businesses abroad
- Work across government to actively support and help increase defence sector exports, building relationships with new customers and tailoring our product offering
- Deepen collaboration between UKEF's International Export Finance Executives and other government officials at posts in British Missions to support the UK's government-to-government and trade offering

4

Levelling up

In 2022-23, we will:

- Continue to widen availability of the General Export Facility with new delivery partners to reach more SMEs across the UK
- Use the Export Finance Manager network and product innovations to reach more SMEs whose turnover is less than £10 million a year
- Continue to focus on digitising the customer journey to increase efficiency and improve UKEF's fintech offering

5

Trade for good

In 2022-23, we will:

- Strengthen collaboration with British International Investment (formerly CDC) to leverage the government's debt and equity financing offers in developing countries
- Work alongside DIT and the FCDO to promote the developmental benefits of trade through the International Development Strategy
- Enhance and report on UKEF's approach to identify, mitigate and prevent modern slavery in its portfolio

UKEF Message House

To be the best export credit agency

We advance prosperity by ensuring no viable UK export fails for lack of finance or insurance, doing that sustainably and at no net cost to the taxpayer.

Performance
Provide the support UK exporters need to succeed

Effectiveness
Adapt, collaborate and focus activity

Brand
Improve awareness of UKEF amongst customers and stakeholders

Competence
Retain confidence of stakeholders through effective delivery and management of risk

A great place to work
Engage and develop our staff to deliver for our customers

Customer-centric
Deliver a high quality service to those we support

Agile and adaptable
Respond to emerging economic developments and market gaps

Build, nurture and inspire our people to be positive leaders, by working smarter and by valuing all

Integrity | **Honesty** | **Impartiality** | **Objectivity**

Louis Taylor
Chief Executive and Accounting Officer

28 June 2022

Notes

1 UNCTAD. Global trade hits record high of $28.5 trillion in 2021. February 2022 [unctad.org/news/global-trade-hits-record-high-285-trillion-2021-likely-be-subdued-2022]
2 UKEF & DIT. Memorandum of Understanding between the Department for International Trade and UK Export Finance. December 2021 [gov.uk/government/publications/memorandum-of-understanding-between-the-department-for-international-trade-and-uk-export-finance/]
3 DIT. Letter from the Secretary of State for International Trade to UK Export Finance on UKEF's annual priorities. March 2021 [gov.uk/government/publications/letter-from-the-department-of-international-trade-to-uk-export-finance-on-ukefs-annual-priorities/letter-from-the-department-of-international-trade-to-uk-export-finance-on-ukefs-annual-priorities]

Performance overview

Financial objectives

Objective and description	Results
Maximum commitment This measure places a cap on the maximum amount of nominal risk exposure (the total amount of taxpayers' money that may be put at risk by UKEF).	**Met** The highest recorded maximum exposure in the year was **£36.5 billion**, against a maximum permissible level of £50 billion.
Risk appetite limit This limit places a constraint on UKEF's appetite for risk at the 99.1 percentile of UKEF's estimated portfolio loss distribution.	**Met** UKEF's 99.1 percentile of portfolio loss distribution did not exceed **£3.5 billion** against a maximum permissible level of £5 billion.
Reserve index This index ensures that UKEF has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5% level of confidence.	**Met** The reserve index did not fall below **1.96** in the year, against a target minimum of 1.00.
Pricing adequacy index This index tests whether, over time, UKEF earns sufficient premium income to cover all its risk and operating costs. It is measured over 3 different periods:	
(i) past 2 years and present year.	**Met** This index at 31 March 2022 was **1.69**, against a monthly minimum target of 1.00.
(ii) previous, present and (forecast) next year.	**Met** This index did not fall below **1.57**, against a monthly target minimum of 1.00.
(iii) present year and (forecast) next 2 years.	**Met** This index did not fall below **1.58**, against a monthly target minimum of 1.00.
Premium-to-risk ratio This measure ensures that each year UKEF charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to administrative costs.	**Met** This ratio did not fall below **2.03**, against a target minimum of 1.35.

The Chief Risk Officer's report sets out more detail on these objectives.

These financial objectives apply to business issued since 1991. There are no specific financial objectives in respect of outstanding exposures on business supported before 1991 other than to recover amounts owed to UKEF, while taking account of the government's policy on debt forgiveness. As authorised by HM Treasury, the TCRF is exempt from UKEF's standard portfolio level financial objectives and risk appetite limit. These financial objectives apply to accounts 2 and 5, the only exception is the maximum commitment objective which includes accounts 2, 3 and 5.

Economic snapshot

Richard Smith-Morgan
Deputy Chief Risk Officer

Dark clouds on the horizon

The invasion of Ukraine by Russian forces looms large over the global economy.

The Russian economy is expected to enter a deep recession as far-reaching sanctions take hold, with significant spillovers to Europe and beyond. The International Monetary Fund (IMF) has revised global growth forecasts for 2022 down from 4.4%[1] in January to 3.6%[2] in April, and the OECD expects a one percentage point hit to global growth in 2022.[3]

The shock has added to inflationary pressures, particularly in the energy markets, where the price of Brent oil reached $139 per barrel on 7 March 2022. These effects will worsen the current cost-of-living squeeze, as higher prices feed into transport costs and energy bills, and then onwards into basic purchases such as food. This in turn puts pressure on governments to support businesses and citizens as they deal with falling purchasing power.

Rising energy prices also have ramifications for external balances. While net energy exporters stand to gain from higher prices, net energy importers face worsening terms-of-trade and currency depreciation pressures.

Recovery hits a stumbling block

Elsewhere, prices for wheat, metals and other strategic commodities have seen large increases because of the conflict. Globally, Russia and Ukraine account for almost 30% of wheat, 13% of corn and over 60% of sunflower seed oil exports globally.[4]

The conflict is highly likely to disrupt agricultural activities, which could seriously escalate food insecurity globally – at a time when international food and input prices are already high. This insecurity may be more acute in emerging markets and developing economies (EMDEs), where a larger share of income is spent on food.

Many European and Central Asian countries also rely on Russia for over 50% of their fertiliser.[5] Shortages of fertiliser will hamper food production and further squeeze supplies.

Before the conflict began, the global economy was rebounding strongly from the effects of the coronavirus (COVID-19) pandemic. After a 3.1% contraction in 2020, the economy grew 6.1% in 2021.

The rollout of vaccination programmes helped reduce severe illness, hospitalisations and fatalities from COVID-19. This allowed lockdowns to ease and citizens to resume economic activity.

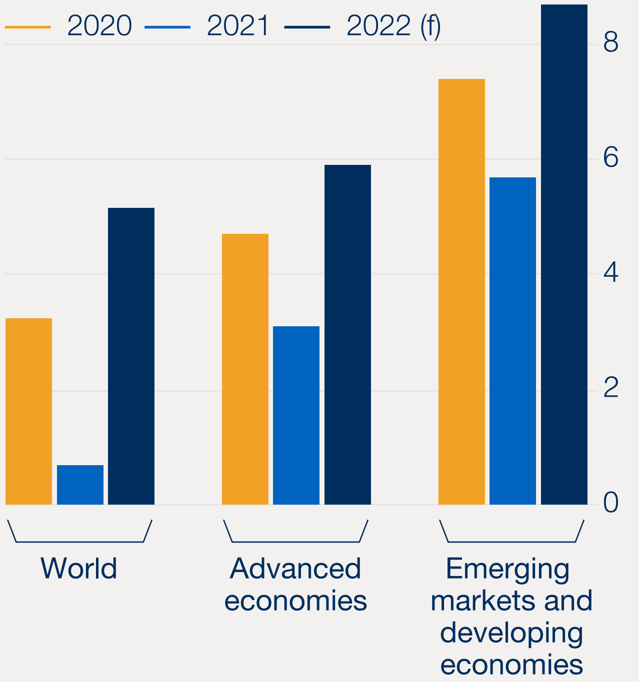
However, the procurement and administration of vaccine doses varied markedly along wealth lines. Higher-income countries could acquire vaccines at a much faster rate, creating divergent paths to economic recovery.

In 2021, advanced economies grew by 5.2% and EMDEs by 6.8% – but within this group, low-income countries grew by a more modest 4.0%, as their recoveries were pushed back into 2022.[6]

The Ukraine war and supply shortages are driving inflation

Annual inflation rate (%)

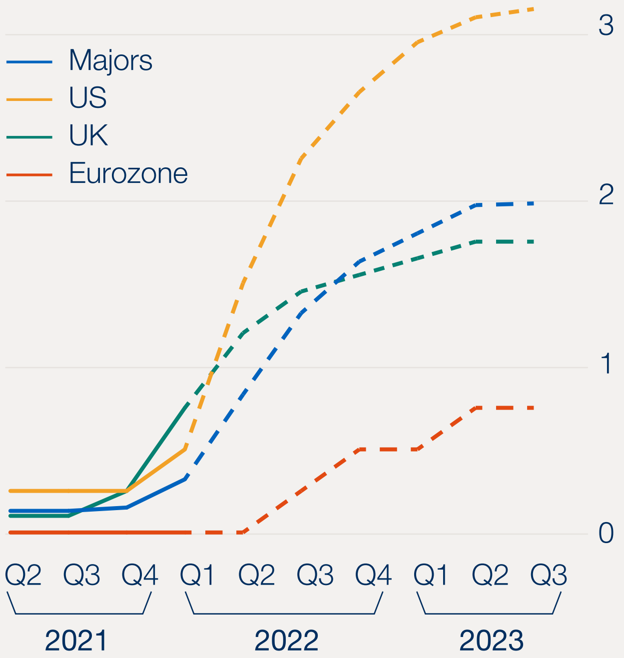
Source: IMF WEO April 2022



Central banks are expected to respond by raising interest rates

Central bank interest rate forecasts (%)

Source: Bloomberg



Note: Majors represents an average for Australia, Canada, Denmark, Eurozone, Japan, New Zealand, Norway, Sweden, Switzerland, UK and US

Which will make borrowing more expensive

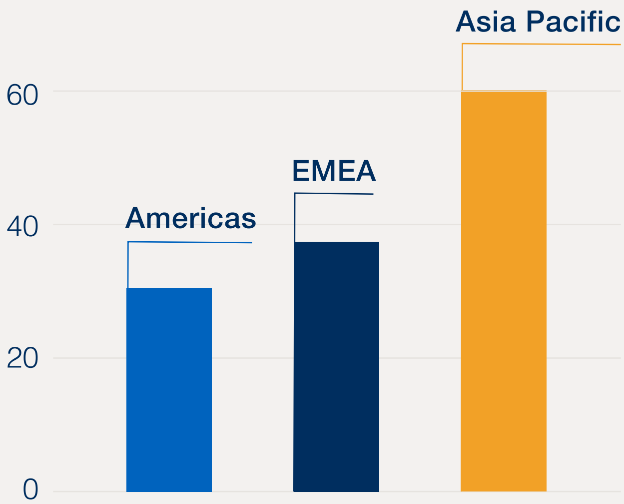
JP Morgan's Emerging Market Bond Index (EMBI) Global Diversified Sovereign Spread (basis points)

Source: Bloomberg

And could increase the risk of sovereign defaults

Average increase in credit default swap (CDS) spreads, YTD (%)

Source: Bloomberg



Notes: EMEA = Europe, the Middle East and Africa; excludes Russia and Ukraine. YTD = Year-to-date (23 May 2022)

The threat of new COVID-19 variants still poses downside risks, particularly for countries with much lower vaccination rates. We saw this in action with the Omicron variant, which led to many travel and mobility restrictions being reintroduced and generated turbulence in financial markets.

Reverberations around the world

Several significant macroeconomic events accompanied the turn of the year, giving rise to more downside risks.

For example, concerns have mounted over the health of China's real estate sector after Evergrande's default and the potential for its consequential impact on the banking system.

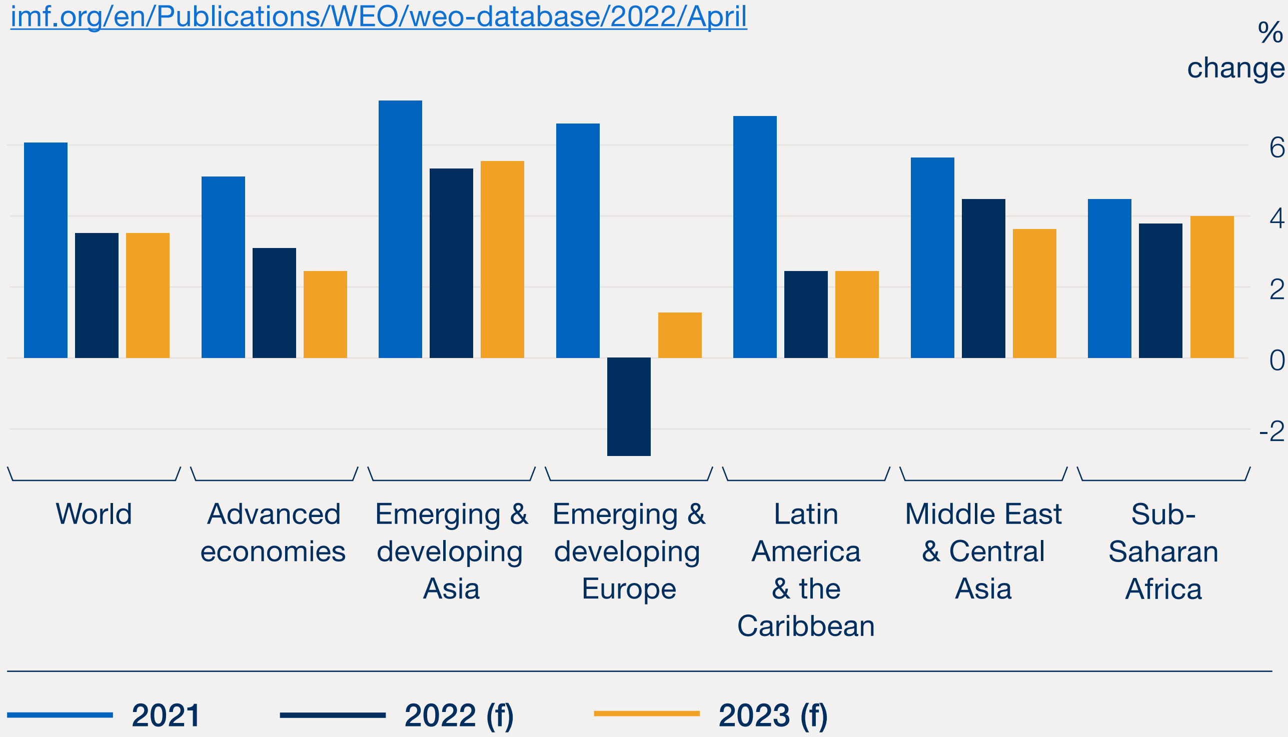
At the same time, central banks in advanced economies are adopting more hawkish stances as inflation persists. Both the Bank of England and the Federal Reserve have already raised rates. This is likely to have an impact on EMDEs as they face the threat of capital outflows and currency depreciations, which would worsen their external debt burdens. This is somewhat concerning given their recent build-up of sovereign debt, as the recent Sri Lankan default illustrates.

As a result, governments – particularly those in lower-income countries – have more limited fiscal space to battle these external macroeconomic pressures. Meanwhile, following strong performance in 2021 and buoyed by ultra-loose monetary policy and substantial fiscal stimulus, the financial markets entered 2022 in correction territory.

Declines were driven by the spread of Omicron, inflation fears and hawkish stances from central banks. The crisis in Ukraine has exacerbated stock market falls and generated significant future uncertainty, driving investors to seek safe-haven assets. The conflict has reverberated across the global financial system as investors try to assess the damage it will cause.

IMF World Economic Outlook growth projections (real GDP, annual percent change)

Source: IMF WEO April 2022
imf.org/en/Publications/WEO/weo-database/2022/April



The outlook at home

The UK economy grew by 7.5% in 2021.[7] The Office for Budget Responsibility (OBR) expects growth of 3.8% in 2022,[8] considerably lower than the 6.0% previously forecasted in October 2021,[9] before the war in Ukraine.

Annual UK inflation hit 6.2% in February 2022,[10] well above the Bank of England's 2% target. The OBR forecasts inflation to average 7.4% for 2022. The increase in energy prices is the main driver of inflation, but supply problems, high shipping costs and staff shortages are also contributing factors. In response, the Bank of England raised rates again in March 2022, for the third time in 4 months, and noted that further rate hikes might be necessary.

Looking further ahead, climate change poses a serious threat to the global economy. COP26 brought about some encouraging collective commitments; now it is time to deliver on them. The world's increasing focus on climate change, combined with rising wholesale fossil fuel prices, is spurring governments into action. We hope this will catalyse much more investment into adaptation and building resilience, which will help to create more sustainable economies.

At the time of publication, the Ukraine crisis is the main uncertainty affecting the economic outlook. A peace agreement could support the global economy, but the conflict is still likely to leave long-lasting scars and the fallout from the war in Ukraine, the build-up of sovereign debt and the gloomier growth outlook all pose risks to credit quality. This may increase demand for our support, and we remain well placed and ready to support UK exports, but also highlights the importance of our continued, effective risk management of our portfolio.

Notes

1 IMF. World Economic Outlook Update. January 2022 [imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022]
2 IMF. World Economic Outlook. April 2022 [imf.org/-/media/Files/Publications/WEO/2022/April/English/text.ashx]
3 OECD. Economic and social impacts and policy implications of the war in Ukraine. March 2022 [oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2022/issue-2_4181d61b-en;jsessionid=WTP3-rpFvUgN_qE8Efzw0_El.ip-10-240-5-172]
4 Food and Agricultural Organization of the United Nations. The importance of Ukraine and the Russian Federation for global agricultural markets and the risks associated with the current conflict. March 2022 [fao.org/3/cb9236en/cb9236en.pdf]
5 Food and Agricultural Organization of the United Nations. New scenarios on global food security based on Russia-Ukraine conflict. March 2022 [fao.org/director-general/news/news-article/en/c/1476480/]
6 IMF. World Economic Outlook. April 2022 [imf.org/-/media/Files/Publications/WEO/2022/April/English/text.ashx]
7 Office for National Statistics. GDP first quarterly estimate time series. May 2022 [ons.gov.uk/economy/grossdomesticproductgdp/datasets/secondestimateofgdp]
8 OBR. Economic and fiscal outlook. March 2022 [obr.uk/docs/dlm_uploads/CCS0222366764-001_OBR-EFO-March-2022_Web-Accessible-2.pdf]
9 OBR. Economic and fiscal outlook. October 2021 [obr.uk/download/economic-and-fiscal-outlook-october-2021/]
10 Office for National Statistics. Consumer price inflation, UK: February 2022 [ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/february2022]

Our support for exports

Business supported

£33.4 billion
of business supported over 5 years

£7.4 billion
of support provided in 2021-22

545
exporters directly supported

116
General Export Facilities issued (most used product)

61
countries reached by UKEF supported exports

Biggest & smallest deal by value

£1.1 billion
Buyer Credit Facility

£448
Export Insurance Policy

Tim Reid
Business Group Director

Richard Simon-Lewis
Business Development, Marketing and Communications Director

Our financial support

From the industrial heartlands of Wales and the Midlands to the renewable energy hubs of the North East and Scotland, UKEF helps UK companies access the finance they need to take advantage of international trade. Our financial support helps UK companies win orders, fulfil contracts and get paid by providing guarantees, insurance and loans that support export activities.[1]

Many businesses are using UKEF-backed working capital

This year, we delivered 170 working capital facilities to 115 businesses, primarily small and medium-sized enterprises (SMEs).

- 116 facilities from our General Export Facility (GEF)
- 8 facilities from our Export Development Guarantee (EDG)
- 101 facilities from our Bond Support Scheme
- 46 facilities from our contract specific Export Working Capital Scheme

Each of these facilities enables a company to access cash flow solutions that support international trade.

The accessibility, flexibility, and certainty that GEF gives exporters has been a game-changer. The product has become our pre-eminent offering to smaller exporters, with nearly £250 million of funding for UK business issued through the scheme by banks this financial year.

Our EDG offers similar benefits to larger corporates. Since its launch in 2021, we have provided £10.6 billion in backing to some of the UK's largest employers. Our support has provided essential liquidity to businesses seeking recovery, development and growth so they can meet new and continuing global opportunities head-on, and has also supported the large businesses in their supply chains.

Insurance support is returning to pre-pandemic levels

The global pandemic also highlighted the value of our Export Insurance Policy (EXIP), which helps exporters manage the risk of non-payment by customers in challenging markets. As the trade finance market begins its recovery from coronavirus (COVID-19), demand for EXIPs has tapered downwards, with 38 customers being directly supported through the scheme compared to 47 in the year 2020-21.

Demand for buyer finance remains strong

We delivered a significantly increased amount of buyer finance support this year, especially for smaller value export contracts, with 42 transactions issued in the year worth £2.6 billion.

Of these, 11 were provided through our direct lending facility worth £561 million, 18 through our Buyer Credit Facility worth over £2 billion, and 13 through supplier credit facilities, including the newly launched Standard Buyer Loan Guarantee (SBLG), worth £27 million.

CDE Global received UKEF's first Standard Buyer Loan Guarantee

The SBLG provides UK manufacturers and suppliers with support for contracts that involve SME-to-SME trades where the underlying contracts feature high levels of UK content.

Our buyer finance support helps British suppliers win contracts on overseas projects by providing attractive financing terms for their overseas buyers. Of the 545 customers we supported last year, 263 secured business on a UKEF-backed overseas project.

Our impact on the world: sustainable and clean growth deals

Trade is a powerful agent of change, funnelling money and expertise into projects that have a strong clean and sustainable impact. This is why, in September 2021, we announced the formation of a dedicated 20-strong Renewables and Transition underwriting team to focus on securing more deals in these critical sectors.

It has been a busy first year for the new team. We have helped finance Türkiye's largest solar plant. Our EDG is supporting Jaguar Land Rover's next generation of electric vehicles, while facilities provided to British Airways and MACE contained sustainability-related performance clauses, offering improved terms should the companies exceed their emissions reduction targets. We also provided our first Transition EDG to help John Wood Group finance their green ambitions.

This financial year also saw UKEF once again increase the scale of our sustainable financing, including transactions that have a pronounced social or developmental benefit. These transactions have contributed to UKEF rising to first place in TXF's Sustainable Financing league table for 2021.

There is much more to do in these critical areas, of course, and we expect to see ongoing demand for our sustainable financing offer in the next financial year. To accelerate this, we are focussing more of our origination activity on clean growth sectors. In time, we hope to have at least 50% of new business originating from our network of International Export Finance Executives coming from these areas.

Our work around the world, coupled with a proactive focus on clean growth areas, has already helped our department to diversify its portfolio. We have built a pipeline of projects that could benefit from UK financing and exports – not only in renewable energy but also in other low-carbon areas of economic growth.

UKEF CEO Louis Taylor delivering a keynote speech at the UK Trade and Export Finance Forum 2021

Sustainable deals by numbers

£7.1bn of international sustainable projects supported since 2019*

Backed **1st** Transition Export Development Guarantee

18 International Export Finance Executives, putting clean growth at the top of their agenda

#1 ranked ECA globally for sustainable deals in 2021*

12 overseas sustainable projects supported in 2021*

20 underwriters dedicated to supporting Renewables and Transition deals

* According to TXF's sustainable finance rankings.

Case study

Upholding environmental standards in our largest ever infrastructure deal

With £1.1 billion of support, we provided our largest ever guarantee for a civil infrastructure project in Türkiye this year. The operational benefits of the project are strongly sustainable. It will ease road traffic congestion and improve the efficiency of the transport system by providing a more sustainable alternative.

But it is equally important that the project is designed, procured and constructed so that it meets good international industry practice. The project must preserve and account for the existing natural and social environment that surrounds the site.

The project involves the design, construction and operation of a high-speed rail line over 500km, connecting Ankara to Izmir in Türkiye.

Previous construction along the rail corridor, changing institutional ownership, historic and future displacement of people, and critical habitats along the route were all challenges that needed to be managed. That's why we made it a condition of our support that enhanced E&S due diligence was carried out before any UKEF financing was issued.

UKEF worked closely with the exporter and the buyer for all relevant parties to discuss roles, responsibilities and scenario planning for appropriate risk management. By engaging everyone in discussions and scenario planning, UKEF identified and helped to assign roles and responsibilities for each party to manage environmental and social risks. This aligned the project stakeholders on how to achieve international standards and reduce the impact of future environmental and social risk incidents.

Our support for high value exports

Supporting the strategically important UK supply chains and exporters that underpin our country's international trade is a critical focus of the department. We are driving investment in UK manufacturing hubs across the country, creating and sustaining highly productive jobs at companies that export goods and services worth billions of pounds.

Another milestone this year was the first sovereign support that UKEF has provided to the government of Serbia. We provided £363 million for Bechtel and Enka's 5G-ready Morava Corridor motorway project. The road, connecting communities and businesses from Pojate in the east to Preljina in the west, is also the first time we have worked with Bechtel as an applicant for our support. It will create many opportunities for UK suppliers.

This year UKEF also concluded its first transactions in Côte d'Ivoire, totalling £338 million before reinsurance. This included £200 million of support for NMS Infrastructure Limited to build and equip 6 new hospitals and provide post-completion training and technical support. The project will provide a local population of more than one million people with access to vital healthcare services.

The aerospace sector remained heavily affected by COVID-19 during the financial year. UKEF provided support for an additional EDG facility to British Airways, guaranteeing 80% of a £1 billion stand-by loan facility.

We supported the delivery of various Airbus aircraft this financial year, including the final 5 A380 aircraft to be delivered to Emirates and A350 aircraft for Cathay Pacific, Turkish Airlines and Ethiopian Airlines. We also provided support to our Canadian counterparts EDC in respect of the UK content in 12 A220 aircraft.

We supported 5 Boeing 737 MAX aircraft delivered to Sun Express of Türkiye, making use of an agreement between UKEF and

Boeing to provide an element of export credit support based on Boeing's supply chain spend in the UK. We also provided BAE Systems with support in respect of availability services in Oman.

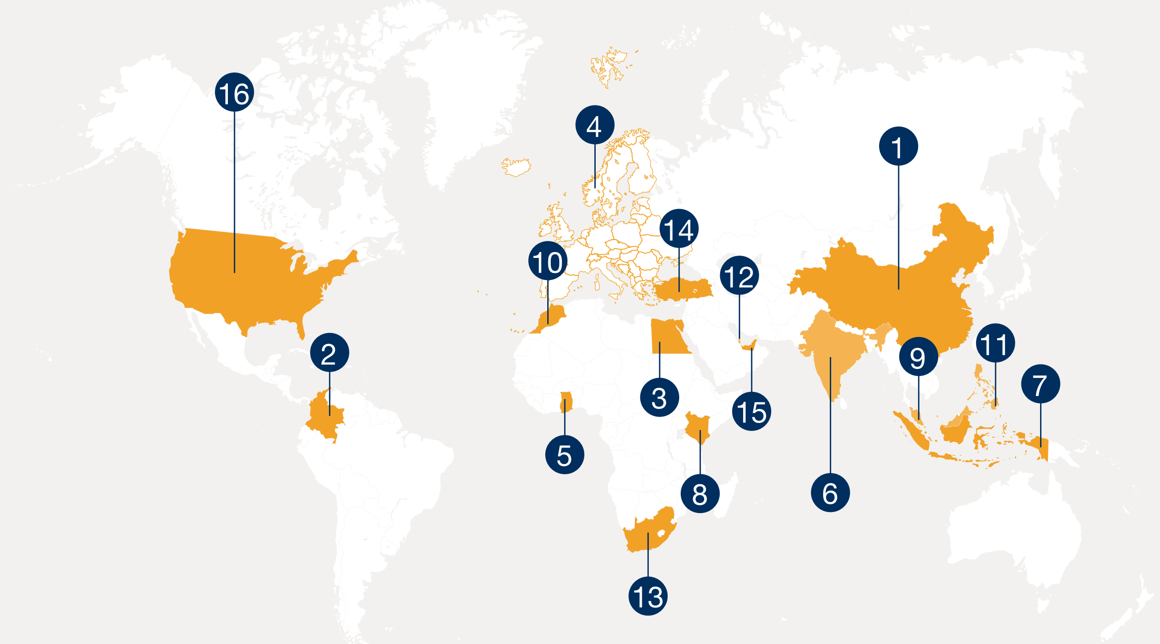
The aerospace sector is critical to the UK. It generates turnover of £60.6 billion and supports 961,000 UK jobs, many of them highly skilled and productive roles. Our support for these firms, as well as for companies who rely on doing business with them, is vital to our mission.

International Export Finance Executive network

During the pandemic, when travel was severely restricted, our International Export Finance Executive (IEFE) network provided crucial on-the-ground coverage to our overseas stakeholders.

Notwithstanding the turbulence of this year, we have successfully expanded this overseas network. Starting with 8 individuals at the beginning of the pandemic in early 2020 and increasing to 12 at the start of the financial year, we now have 18 IEFEs in place and plan to increase this to around 30 over the next year.

UKEF's International Export Finance Executives




1.China
Jiang Wu 吴江


2.Colombia
Camilo Neira


3.Egypt
Mohamed Saad


4.Serbia
Dusko Krsmanovic


5.Ghana
Steven Gray


6.India
Rahul Tabhane


7.Indonesia
Richard Michael


8.Kenya
Isaac Kahara


9.Malaysia
Valentino Dass


10.Morocco
Meriem Bennani


11.Philippines
Timothy Meaney


12.Qatar
Daniel Rathwell

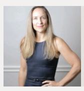

13.South Africa
Dirk van den Berg



14.Türkiye
Irem Kayhan
& Ozgur Kutay



15.United Arab Emirates
Graham Scopes
& Michelle Leong


16.United States
Jesse McDougall

The International Export Finance Executive network at UKEF's all-staff conference

How we bring business to the UK

UKEF markets itself in the UK to a target audience of exporters, overseas buyers of UK supplies and intermediaries such as brokers and lenders. We use a combination of public relations activity, online advertising, social media, events, partnerships, direct marketing and remarketing.

In 2021-22, we continued to put our export finance managers at the centre of our 'Exporters' Edge' campaign. The campaign exceeded its annual target of 5,000 responses from UK businesses.

Now in its fifth year, the campaign has increased awareness of UKEF: today 1 in 6 companies with over 50% export turnover spontaneously name UKEF as a source of support. At the start of the campaign, it was 1 in 20.

The campaign has seen UKEF's customer relationship database grow from around 30,000 contacts to over 100,000. Campaign-influenced new business was responsible for about a third of UKEF's customers in 2021-22, contributing to a growing customer base.

UKEF successfully held 2 supplier fairs in 2021-22. The events sought UK suppliers for the Arab Construction Company and for the International Center for Innovation and Transfer of Agricultural and Livestock Technology (CIITTA) and FGV Europe, for various sustainable food production projects in Africa.

In target markets overseas, we held 35 international events to engage high-value buyers with the potential to source significant volumes of new supplies from the UK.

Our growing overseas network and support teams in the UK engage with overseas finance ministries, multilateral agencies and developers to identify projects of mutual interest that could benefit from UKEF financing and the expertise of the UK supply chain – particularly those in the clean growth space.

These activities help us to stay abreast of opportunities around the world and to insert ourselves into procurement conversations, so that our financing can facilitate the UK supply chain's entry into export opportunities.

Notes

1 DIT. Get finance. Accessed February 2022 [great.gov.uk/get-finance/]

Chief Risk Officer's report

Since last year's report, through most of the financial year 2021-22, economies, balance sheets and the credit environment have been stabilising as the world recovers from the coronavirus (COVID-19) pandemic and the largest global recession since the Second World War.

Samir Parkash
Chief Risk Officer

However, the war in Ukraine, has had a huge impact on key commodity markets, supply chains, energy prices and food supplies. These risks, alongside the continuing threat of new Covid-19 variants, are triggering another slowdown in global growth and renewing the pressure on markets and businesses we support.

These stresses could adversely affect UKEF's portfolios in the short to medium term. We remain alert to emerging risks and, in line with our management of the COVID-19 induced crisis, will adapt our approach and policies as events dictate and as our customers and mandate require.

Risk governance

By the nature of its mandate, UKEF is subject to a wide range of underlying risks.

The ultimate responsibility for risk management within UKEF lies with the Chief Executive Officer (CEO). As Accounting Officer, the CEO is answerable to ministers and Parliament for all aspects of the department's operations. A number of committees, principally the Enterprise Risk and Credit Committee (ERiCC), support the CEO with risk management.

UKEF's risk management activities are also subject to independent oversight and monitoring to help to ensure compliance with financial objectives.

The Board

The UKEF Board provides the CEO with independent advice, scrutiny and challenge across a broad range of areas, including strategic risk management. The Board's Risk Committee separately reviews the adequacy of risk management and controls across the department.

UK Government Investments

UK Government Investments (UKGI) provides advice to the Secretary of State. It also holds an ex-officio position on the UKEF Board. Through this position, UKGI reviews and engages with the department's risk management function, to help make sure risk and internal controls are effectively managed.

UKGI also leads business review meetings to monitor UKEF's financial and operating performance and key performance indicators on behalf of UKEF Ministers and alongside HM Treasury.

Enterprise Risk and Credit Committee (ERiCC)

ERiCC advises the CEO on the effective management of our enterprise and credit risk exposures. It is scheduled to meet weekly and often convenes on an ad hoc basis to consider urgent business.

Its responsibilities include:

- agreeing our enterprise and credit risk policies and procedures
- making sure enterprise risk is effectively identified, assessed, managed and reported across UKEF
- agreeing policies, procedures and methodologies for:
  - calculating and charging premium
  - monitoring and modelling portfolio risk
- managing and monitoring credit risk exposures at transaction and portfolio level
- approving credit risk exposures above the level of authority delegated by the CEO to senior risk executives

The standing members of ERiCC are:

- CEO
- Chief Risk Officer (CRO)
- Chief Finance and Operating Officer (CFOO)
- Business Group Director
- Deputy Chief Risk Officer
- Head of Underwriting Policy and Products
- Head of Portfolio Management
- Chief Analyst

UKEF support will help construct Türkiye's largest solar facility, which will power 2 million households

Other relevant personnel, including the Director of Legal and Compliance or a nominee, will also attend as appropriate. In the absence of the CEO, any approvals require a unanimous decision of a quorum of standing members.

Delegated authorities

In addition to ERiCC, the Risk Management Group has a framework of delegated credit authorities.

- The CEO has authorised the CRO to approve various categories of credit risk within pre-determined limits.
- In turn, the CRO has granted authority over certain credit approvals to senior staff within their teams.
- Credit approvals that exceed the delegated authority of the CRO must be approved by ERiCC. Larger transactions must also be approved by the CEO and HM Treasury.

Organisational model

UKEF has a functional organisation structure, which separates business origination from risk, financial control and reporting functions. This basic internal control is designed to avoid potential conflicts of interest. It also provides vital and appropriate checks and balances in the business origination, credit approval and risk management processes.

The CRO is responsible for the Risk Management Group, which consists of 5 divisions.

Enterprise Risk Division (ERD)

ERD works in partnership with all Groups to ensure that sound risk management practices are embedded in day-to-day activities across the department, promoting a culture of openness, collaboration, and constructive challenge.

Risk Approval Division (RAD)

RAD provides a holistic approach to risk approvals in order to minimise the risk of financial loss, in the event that a counterparty to which UKEF has financial exposure fails to meet its contractual obligations.

The division includes teams assessing country risk, corporate risk, project finance risk and financial institutions risk.

Pricing and Risk Analytics Division (PRAD)

PRAD manages portfolio risk and prices deals to make sure UKEF meets the financial objectives set by HM Treasury and can support the success of both current and future exporters. PRAD analysts also provide technical, modelling and operational consultancy to support robust, evidence-based decision making across UKEF.

Portfolio Management Division (PMD)

PMD monitors customers and exporters after approvals and proactively takes expedient actions to mitigate emerging risks.

It includes teams responsible for post-issue management of medium and long-term cases, active portfolio management, sovereign debt restructuring, distressed assets, and claims and recoveries.

Special Situations Division (SSD)

SSD currently manages all stressed cases within UKEF's aircraft portfolio, but there is scope for expansion into non-aerospace cases when necessary. SSD was created in response to the COVID-19 pandemic, which had a disproportionate effect on the airline industry and the UKEF aircraft portfolio.

Risk management framework

Our risk management framework represents a consistent structure and a documented approach to identifying, assessing, evaluating and reporting known and emerging risks across UKEF. The framework encourages continuous monitoring, good risk awareness and sound operational and strategic decision making.

It encompasses a series of detailed policies, procedure, and methodologies. The Risk Management Group regularly reviews these to make sure they remain fit for purpose in a constantly evolving risk environment. We summarise the key approaches that make up the framework over the following pages.

Industry best practice

Where appropriate, we aim to align our risk management framework with best practice in the financial services industry. At the same time, as the UK's export credit agency (ECA), our role, mandate and risk appetite are different to private sector counterparts, making direct comparisons potentially misleading. An ECA's portfolios will tend to have:

- a higher risk profile
- a focus on emerging market risks
- longer risk horizons
- greater risk concentrations (counterparties, sectors and geographic regions)

Within UKEF the 3 lines of defence model is an integral and critical part of enterprise risk management. Everyone in UKEF has a responsibility to manage risk. Each line of defence has a clear understanding of their responsibility and how they fit into the department's overall risk and control structure.

3 lines of defence model

First Line Every member of staff manages the processes, procedures, risks and controls on a day-to-day basis

Second Line Divisions which are part of the overall management chain but provide independent oversight of management activity

Third Line Delivered by Internal Audit – Independent and objective assurance of UKEF's governance, risk management and control

Risk culture

Sound risk management at UKEF is underpinned by an effective and robust risk culture. Senior leaders are responsible for embedding risk management as part of their teams' everyday business activities. It is a continuous cycle of proactively assessing and responding to new information and developments.

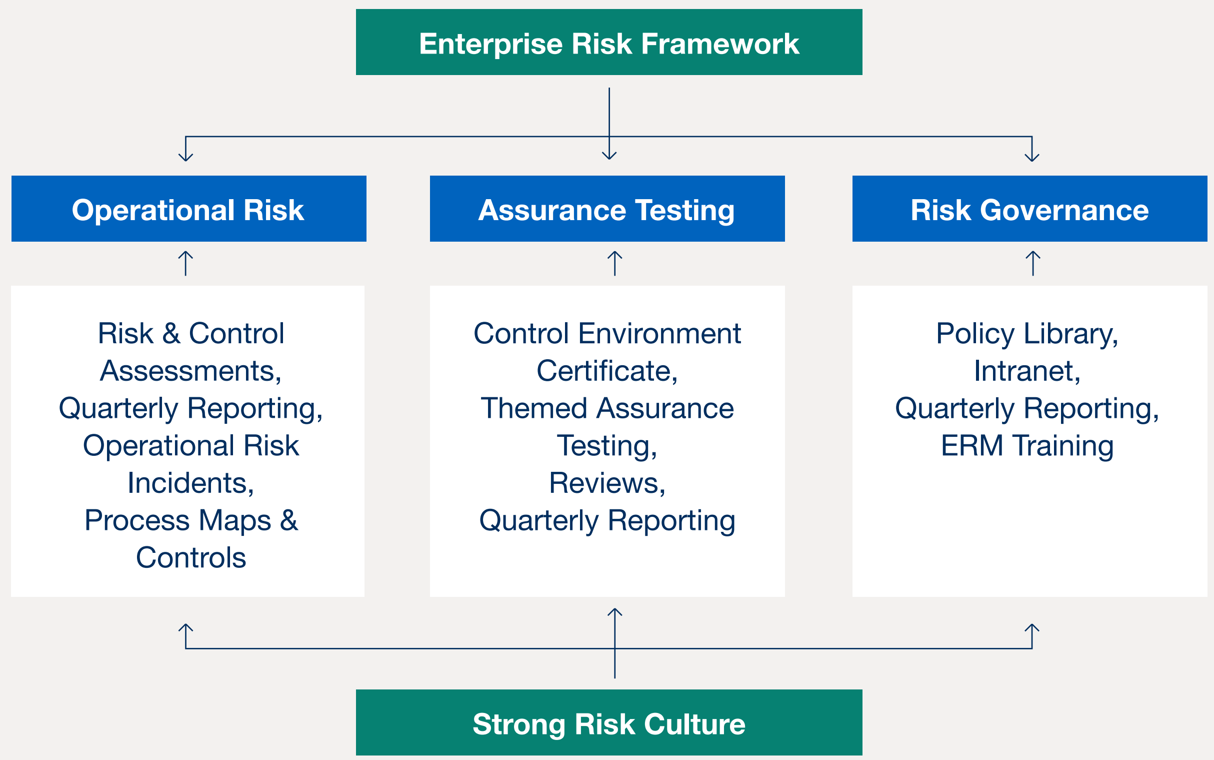
We have recently established a Risk Champion network to promote and embed effective risk management practices across UKEF. Risk Champions enhance our risk culture by being proactive ambassadors and acting as a first point of contact for risk management for each Group.

Enterprise risk management

The CEO has designated responsibility for leading UKEF's approach to enterprise risk management to the CRO. This includes ensuring there are appropriately skilled staff to independently influence and challenge governance and decision-making forums.

The Enterprise Risk Division (ERD) helps everyone embed risk management practices using department-wide communications, knowledge-building events, training and guidance. To support its work, ERD follows an established set of enterprise risk management principles:

- proactive, not reactive
- ownership of risks by the relevant division
- risk management is embedded in day-to-day processes
- robust and responsive to change
- assists in the achievement of UKEF's strategic objectives



Monthly and quarterly enterprise risk reports (which include outcomes and remediating actions from enterprise risk activities) are presented to ERiCC. This enables the committee to monitor and manage the department's enterprise risk profile and to obtain assurance that its decisions have been acted upon.

Enterprise risk reporting is also provided to the Risk Committee, summarising key risks and the effectiveness of risk management in UKEF.

Policy and framework

Our enterprise risk policy and framework ensure that effective risk management is integrated into the way UKEF manages and operates its businesses. They set out our best practice approach to managing enterprise risk and are designed to ensure the department has the right processes, procedures, reporting and control mechanisms to identify, assess, monitor, report and remediate risks.

The policy also sets out the CEO's high-level requirements and defines the roles and responsibilities for enterprise risk management across the department.

Taxonomy

Our enterprise risk taxonomy identifies 9 primary risk categories. These provide senior management with a structured approach to managing known and emerging risks across UKEF.

Each primary risk is owned by a member of the Executive Committee, who has executive oversight of that risk and is responsible for managing it within UKEF's risk appetite.

UKEF Risk Taxonomy

Environmental	Climate change	Financial (including credit and market)
Strategic and business	Political	Operational
Programme and project	External	Compliance and legal

We consider conduct and reputational risks on a pan-UKEF basis rather than as a separate risk type. This enables us to consider these risks strategically, as part of the assessment for all risk categories in the course of doing business.

Regional Head Export Finance Manager Robin Priestley who covers Northern England, Scotland and Northern Ireland

Operational risk

Managing operational risk is an integral part of UKEF's overall enterprise risk management activities and must be considered by all staff.

Each group within UKEF maintains a risk and control assessment (RACA), which details the key known and emerging risks it manages. ERD also monitors, analyses and reports actual operational risk incidents to identify key and recurring themes.

For more discussion of operational risk, see the Governance Statement on page 132.

Assurance framework

Assurance testing provides the CEO, Executive Committee, ERiCC and the Risk Committee with independent, reliable evidence that primary enterprise risks are being adequately managed and governed.

Assurance testing is achieved by undertaking 'deep dive' reviews, ad hoc sample control testing, quality control checks and new initiative assurance.

Control environment certificate (CEC)

All group directors use a consistent and comparable rating mechanism to assess and self-certify the management of enterprise risk within their area of responsibility. Twice a year, group directors are required to provide this assessment and self-certification to the CEO.

The outputs of each CEC inform the assurance testing plan, RACA challenge sessions and enterprise risk reporting.

Risk appetite

We have developed our risk appetite statement to facilitate strategic discussions about risk – and to support informed decision-making, by making sure the boundaries of risk-taking have been set and understood.

Formally articulating our risk appetite provides the foundation for further development of the wider risk appetite framework.

Policy management

The policy management framework governs internal department-wide policies. It is designed to ensure that these policies adequately address the material inherent risks UKEF faces in its business activities, and that we are managing these risks in line with our risk appetite and business strategies.

Financial risk management

Credit risk is the most significant source of financial risk for UKEF. It is also a core competency for the department. We have a number of financial objectives and a series of detailed risk policies, procedures and individual risk methodologies which determine how we assess, measure, manage and report the categories of credit risk we are exposed to.

All material credit risks must be approved by the CEO, ERiCC or a designated member of the Risk Management Group with the appropriate delegated authority. Further, UKEF may not give an individual commitment in excess of £200 million without the agreement of HM Treasury. Once approved, credit exposures are regularly monitored and reviewed at both portfolio and individual transaction level.

ERiCC oversees portfolio-level monitoring. This includes stress testing and scenario analysis every 6 months and a monthly review of portfolio movements, particularly focussing on exposure, expected loss and unexpected loss changes. Monthly management information reports the performance of the credit portfolio – including detailed limit management reviews – against our financial objectives. On a quarterly basis, detailed portfolio packs are presented to the Risk Committee.

At a transactional level, we regularly update the ratings allocated to countries and individual counterparties. UKEF maintains 'watch lists' of counterparties whose credit risk is materially deteriorating; if the credit of a non-sovereign borrower deteriorates such that UKEF might reasonably expect to pay out under a guarantee or insurance policy, the case will be managed by a dedicated unit within the Portfolio Management Division.

Financial objectives and risk appetite

Parliament sets a limit on the commitments into which UKEF may enter. This limit is expressed in special drawing rights (SDR), an international reserve asset created by the International Monetary Fund (IMF) and set at SDR67.7 billion (approximately £70 billion).

UKEF's powers may only be exercised with the consent of HM Treasury. The Treasury agrees a standing consent with UKEF, providing parameters within which we can operate without needing to seek explicit approval, as well as our financial objectives and reporting requirements.

UKEF's financial objectives, set by HM Treasury, are designed to enable us to fulfil our mandate of supporting UK exporters while ensuring that credit risk and pricing:

- are managed on the basis that UKEF should receive a return that is at least adequate to cover the cost of the risks it is assuming
- do not expose the taxpayer to the risk of excessive loss
- cover UKEF's operating costs

UKEF's credit risk and pricing structure is governed by 6 financial measures:

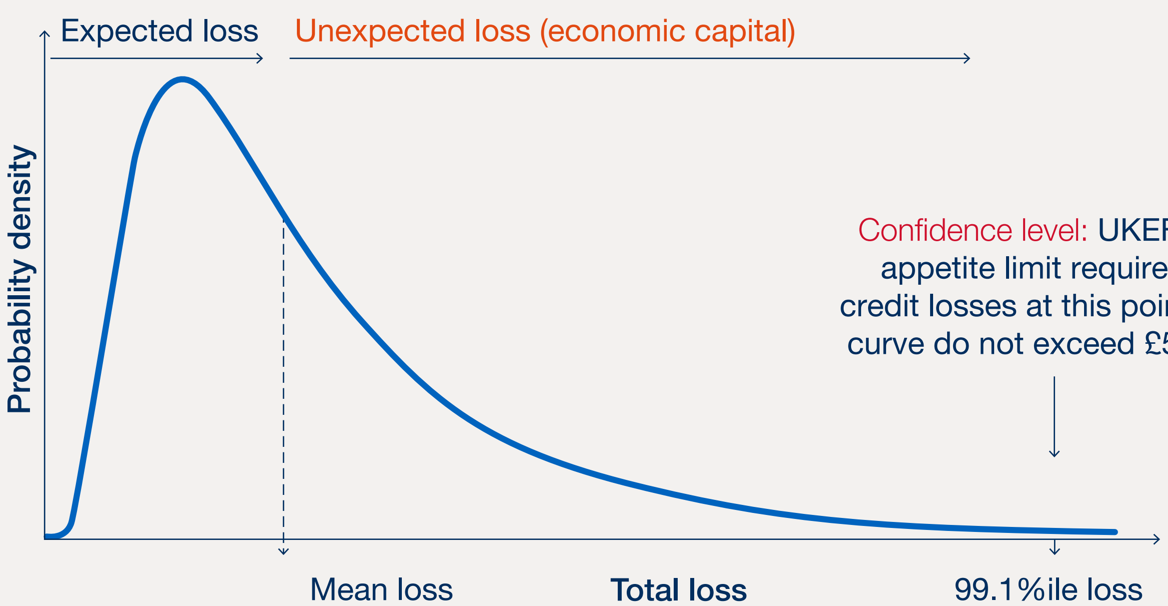
- maximum commitment: the total amount of nominal credit risk exposure that the department may incur; set at £50 billion under the HM Treasury consent
- risk appetite limit: a form of economic capital limit of £5 billion[1]
- exposure management framework: a limit to exposure of £5 billion for any individual market, with capacity set inversely to risk
- reserve index: an index that measures whether UKEF has accumulated enough reserves over time to cover its possible credit losses at the 77.5 percentile on its portfolio loss distribution[2]
- pricing adequacy index
- premium-to-risk ratio

For the outturn against all our financial objectives for the financial year 2021-22, see page 33.

Economic capital and the risk appetite limit

Economic capital (often referred to as capital at risk or CaR) is a measure of risk based on potential future losses. It can be considered as a buffer to cover unexpected losses over a defined future period at a specified confidence level.

Portfolio loss distribution



Expected loss is a calculation of anticipated average loss over a defined period, based on historical experience. Expected losses essentially represent a 'cost of doing business', implying that when a financial institution assumes credit risk, it should always seek to charge an amount at least sufficient to cover the expected loss associated with the relevant loan, guarantee or insurance policy.

Unexpected loss accounts for the potential for actual losses to exceed expected losses, reflecting the uncertainty inherent in calculating future losses. Unexpected loss will tend to increase if a portfolio has high risk concentrations and/or the risks in the portfolio are strongly correlated. UKEF defines unexpected loss as the difference between the portfolio expected loss and the 99.1% value of the loss distribution.

The risk appetite limit set by HM Treasury means that UKEF must manage its credit risk-taking activities such that total losses, as modelled by our portfolio risk management simulation model, will not (with a 99.1% degree of certainty) exceed £5 billion. In other words, at no time should portfolio expected loss, plus provisions against claims already paid, plus portfolio unexpected loss, exceed £5 billion. (This limit excludes business transacted under our Temporary COVID-19 Risk Framework, Account6 or under ministerial direction, Account 3.)

Assessing credit risk

We use the following credit risk assessment process to estimate expected loss.[3]

1. We assign a credit rating (from AAA to D) to all UKEF's credit risks to estimate the probability of default. These probabilities are updated at least annually, using S&P's nomenclature.
2. We estimate the loss given default: how much we stand to lose if the counterparty defaults, expressed as a percentage. Corporate and project finance loss given default assessments are conducted on a case-by-case basis, considering security, priority ranking, recovery prospects by market and likelihood of restructuring, sale or liquidation.
   - In the case of sovereign risk, persistence of default is also included in the calculation of potential loss. Based on empirical research, persistence of default (the estimated duration of a country's default) is calculated as a function of its per capita income, the severity of indebtedness and whether the default is a liquidity event or substantially more material.
3. We estimate exposure at default: the credit risk exposure we have at the time of default.

We also closely monitor unexpected loss, which is integral to our assessment of credit risk appetite.

UKEF Supplier Fairs offer opportunities for UK firms to meet directly with the buyers for major international projects

Assessing sovereign risk

We assess each country in which we have an actual or potential credit exposure and use this assessment to assign a credit rating, from AAA (highest) to D (default, lowest).

Our sovereign risk assessment framework is aligned with the one that Fitch, Moody's and S&P use – but on top of that, ours is informed by a range of external materials, as well as cross-Whitehall forums, local UK diplomatic representatives, triannual OECD country risk expert meetings and country-specific visits, including meetings with a wide range of stakeholders.[4]

Where no external credit rating exists, we typically use a World Bank-derived credit rating model supplemented by analyst judgement and peer comparisons. In all instances, credit ratings are reviewed by senior management and approved (as appropriate) by ERiCC.

ERiCC systematically reviews UKEF's country limits and associated cover policies. Those of our economists who focus on sovereign credit also hold in-country meetings with all of our largest sovereign counterparties.

Exposure management framework

Our exposure management framework sets individual country limits based on the following principles:

- countries with higher levels of credit risk will have lower limits
- the larger a country's economy (as measured by its GDP), the higher the potential limit
- country limits are set relative to UKEF's notional capital and are consistent with its financial objectives
- the maximum country limit is £5 billion

The exposure management framework also prescribes a number of counterparty, sector and regional exposure guidelines to help manage concentration risk.

Engagement with the Paris Club and G20

The Paris Club is an informal group of official creditors (primarily OECD) that cooperates on sovereign risk monitoring and sovereign restructuring operations. Its decisions are not legally binding, but the group and its members are committed to operating in line with principles of solidarity, consensus, fair burden sharing and information sharing; and in partnership with the IMF's programmes of policy conditionality.

In response to the COVID-19 crisis, the G20 and the Paris Club agreed in April 2020 a temporary net present value-neutral suspension of principal and interest repayments from eligible and requesting low-income developing countries under the Debt Service Suspension Initiative (DSSI) from 1 May 2020. The DSSI concluded on 31 December 2021. In total, the Paris Club deferred approximately US$4.6 billion from 42 requested low-income countries under the DSSI to support their COVID-19 response and recovery strategies. UKEF fully implemented the terms of the DSSI for requesting countries with eligible UKEF exposure. As a member of the Paris Club, the UK does not report on the details of Paris Club operations unilaterally; further details on the implementation of the DSSI can be found on the Paris Club website.

Following the conclusion of the DSSI, UKEF is working closely with HM Treasury, the Foreign, Commonwealth and Development Office (FCDO) and international partners on the G20/Paris Club Common Framework. The Common Framework provides a new institutional structure for sovereign debt restructurings required by low-income countries, enabling emerging official creditors (such as China, India, and Saudi Arabia) and the traditional official creditors of the Paris Club to cooperate during the negotiation of the terms of sovereign restructuring agreements.

Sovereign defaults that lead to debt restructuring agreements through the Paris Club or Common Framework are managed by the Risk Management Group, working in conjunction with HM Treasury (which leads the government's sovereign debt function). Paris Club developments are monitored by the ERiCC, which must approve any provisions or impairments made against this exposure. During the financial year, UKEF received recoveries totalling £66 million from countries which continued to make payments under their UK Paris Club debt agreements.

Information sharing by creditors is a crucial component of promoting debt sustainability. The UK, as a creditor to other national governments, is committed to adhering to the highest standards of debt transparency. As part of the UK's commitment to the G20 Operational Guidelines for Sustainable Financing, UKEF has, since March 2021, published quarterly reports on any new issued and effective sovereign direct lending, sovereign called guarantees or finalised bilateral Paris Club restructuring agreements. The reports capture granular loan-by-loan data, including its use, beneficiary, amount, tenor and type of interest rate. The publications complement HM Treasury's annual report on the outstanding stocks of debt owed by other countries to the UK (including UKEF and FCDO), aggregated on a country-by-country basis. The UK was the first G7 country to raise our sovereign lending transparency practices to this high standard. Following our lead, in June 2021, all other G7 members committed to publishing their creditor portfolios on a loan-by-loan basis for future sovereign direct lending.

Assessing corporate, SME and project finance risk

Risk assessments for our corporate business (which includes our aircraft financing business) and project finance business are principally based on S&P credit rating methodologies.

For small and medium-sized enterprise (SME) credit ratings, we have a separate, bespoke methodology.

For each transaction, we combine rating templates with the relevant analyst's subjective judgement. The analyst's judgement is particularly important when it comes to more qualitative factors, such as management, environmental and social factors, climate change and corporate governance.

Where available, we benchmark the resulting credit ratings against industry peers and other relevant market metrics.

We continue to refine our underlying credit risk methodologies, particularly with respect to the SME sector, in order to reduce turnaround times. More specifically, we have flexed a number of the key credit criteria for our bond support and working capital facilities, which we risk-share with financial institutions. Similarly, we have streamlined the credit assessment process for our export insurance business, which has allowed us to increase new business volumes. We have also developed a bespoke credit assessment process to handle the payment risks that arise under export insurance, and the credit and political risks covered by bond insurance.

The continuing effects of COVID-19 throughout the financial year have manifested as increased pressure on corporate and sovereign cash flows and liquidity profiles and, in particular, as significantly increased leverage. As such, the Risk Management Group has increased its focus on analysing cash flow generation and capital structure profiles and adopted a more forward looking, through-the-cycle approach to its fundamental credit analysis. The creation of a discrete credit rating unit within the Risk Management Group was part of this structural refinement and through-the-cycle ratings have become an intrinsic part of the rating process.

Assessing financial counterparty risk

The Financial Institutions team manages all UKEF's financial counterparties, including banks, insurance companies, funds, leasing companies and other non-bank financial institutions (NBFIs). The unit is embedded firmly into UKEF's credit risk framework, operating under the same underlying principles as our corporate, SME and project finance teams: utilising specific S&P rating templates where appropriate, supplemented with seasoned analytical judgement.

All UKEF transactions require a bank or NBFI, whether as direct borrower, guarantor, lending syndicate participant, security trustee or payment and collection agent. We assess all such counterparties to make sure they meet our minimum credit risk standards. They can only be approved under appropriate delegated authority or, where relevant, by ERiCC.

Our portfolio of insurers has been approved to facilitate our active portfolio management programme. This is where UKEF purchases reinsurance from the private market, subject to strict requirements, to reduce portfolio risk concentrations, decrease the likelihood of idiosyncratic losses, and/or free up headroom in country limits to support more UK exporters. We require all insurers, including general insurers and Lloyd's syndicates, to have a minimum A- equivalent credit rating and to have maintained sound capital and solvency ratios, as well as underwriting disciplines during the COVID-19 pandemic. We remain vigilant to the impact of future events on the industry, particularly climate change.

Aircraft operating lessors are a core component of the global aerospace industry; about 50% of all commercial airline fleets are leased. As airlines seek to repair their balance sheets following the pandemic, this proportion is forecast to grow. The unprecedented impact of COVID-19 necessitated closer analysis of UKEF's aircraft operating lessors, to demonstrate that even in materially reduced revenue scenarios, they had sufficient liquidity sources to meet their financial obligations over the anticipated term of the pandemic.

The majority of UKEF's aircraft operating lessors' risk exposure remained investment-grade, with no rating downgrades and no defaults.

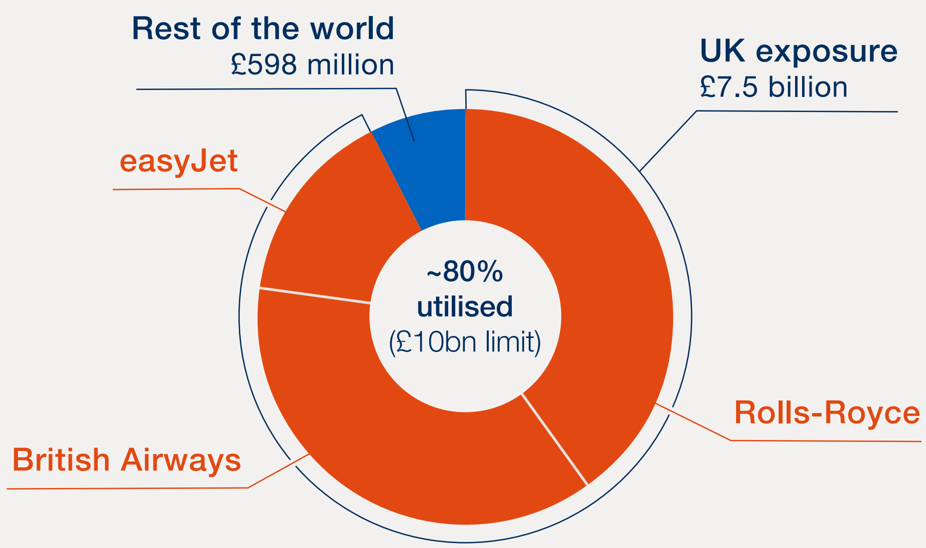
Temporary COVID-19 Risk Framework

To assist UK exporters as rapidly as possible following the outbreak of COVID-19, UKEF established the Temporary COVID-19 Risk Framework (TCRF) in April 2020, under a specific approval from HM Treasury. This helped support the cash flow and liquidity profiles of both UK exporters and overseas buyers of UK goods.

While exempt from UKEF's normal portfolio-level financial objectives and risk appetite limits (as defined on page 33), approved TCRF transactions remain firmly within UKEF's minimum risk appetite requirements from a through-the-cycle perspective. The programme is underpinned by a comprehensive reporting structure, including day-to-day monitoring for our largest counterparties.

The incremental capacity and flexibility of the programme – which also included doubling the UK country limit to £10 billion and temporarily increasing all other country limits by 50%, to a maximum of £7.5 billion (from the current maximum of £5 billion) – proved to be highly successful throughout the year 2021-22, seeing almost 82% utilisation by the end of the year.

Temporary COVID-19 Risk Framework



Not surprisingly, the hard-hit UK transportation sector was the major beneficiary, with substantial facilities for Rolls-Royce plc, British Airways and easyJet.

The programme has been extended as a result of new COVID-19 variants, with a current expiry date for new exposures of July 2022.

Financial crime compliance

UKEF is committed to deterring fraud, bribery and corruption, and to safeguarding taxpayer funds by taking all precautions that are reasonable and proportionate in the circumstances to avoid loss through becoming involved in export transactions tainted by financial crime.

As such, UKEF undertakes rigorous due diligence, including checks against fraud, bribery and corruption, before providing any support. UKEF has fully implemented, and abides by, the OECD Recommendation on Bribery and Officially Supported Export Credits, applying these standards before providing financial support.

Environmental, social, governance and climate change

UKEF recognises the importance of considering environmental, social, governance (ESG) and climate-related financial risks as part of its risk management processes.

Sovereigns and corporates are increasingly exposed to climate-related risks. UKEF has developed, and continues to develop, its approach to assessing the financial implications of these risks on all new and existing risk entities, as appropriate and in proportion to the risk taken by the department.

To advance and build capacity for managing climate-related financial risks, UKEF follows the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Across all of our portfolios, we continue to refine and expand our approach to analysing the credit impact of ESG and climate change. We have introduced bespoke ESG and climate change templates to our corporate business from April 2021.

Strengthening UKEF's climate-related risk management capabilities

During the financial year, the Risk Management Group strengthened its capacity for managing climate-related financial risks in a number of key areas.

As well as adding a number of subject matter experts – including policy professionals, climate change financial modellers and climate change economists – we have enhanced the processes and policies governing our risk management activities, engaged with industry peers (including credit rating agencies and financial institutions) and, importantly, gained observer status at the UK's Climate Financial Risk Forum (CFRF). Led by the Bank of England, the CFRF includes some of the UK's most important commercial financial institutions.

Integrating climate-related financial risks in credit risk assessments

Since 1 November 2019, UKEF has been refining its analysis of ESG risks in all new sovereign and non-sovereign credit risk assessments.

From April 2021, we have enhanced this approach by using a new non-sovereign ESG and climate-related assessment framework and integrating climate-related financial risk considerations in our credit risk analysis. This approach augments UKEF's analytical processes by considering risk categories recommended by TCFD, the potential for climate change resilience and adaptation measures to mitigate risk and the resulting potential financial implications.

Project finance transactions, which generally involve single assets with long tenor loans (upwards of 18 years), can be particularly exposed to transition risks. It is therefore imperative that we understand the competitive landscape of these projects over the timescale of the debt. Using advice from independent external consultants, our project finance credit assessments consider relevant ESG and climate-related risks – with a particular focus on transition risks which could impact the economic life of the project, potentially causing the asset to become stranded. Environmental risk assessment includes physical climate risk considerations.

For corporates and financial institutions, unlike project finance, we do not routinely engage external consultants. The range of ESG and climate-related factors are considered as part of the rating and loss given default process. As this is an evolving discipline, we continue to develop our approach to assessing the credit risk consequences of these factors, utilising external industry analysis as appropriate.

All our recent sovereign risk reviews explicitly assess the potential impact of ESG and climate-related risk. We are still developing the methodology for incorporating this assessment, but we have drawn on the analyses by the global credit rating agencies, as well as other sources such as the World Risk Index and World Bank. We consider vulnerabilities to physical climate change impacts such as water shortages, droughts and coastal flooding, as well as transition risks such as reliance on fossil fuels – which could see a sharp fall in demand because of changes in government policies, regulations or consumer preferences.

Integrating climate-related financial risks in portfolio analysis

Climate change considerations already play a key role in our counterparty and portfolio analysis. In addition to analysis at the counterparty level, and in line with the TCFD's recommendations, since 2019 we have analysed our portfolio's exposure to both transition and physical climate change risks, with both qualitative and quantitative scenario analysis, as part of a twice-yearly stress testing exercise.

Analysing transition risk is relevant for our portfolio because historic and current transactions with high greenhouse gas emissions are vulnerable to potential policy, legal, technology and market changes. Assessing physical climate risks is relevant for UKEF because of our geographically dispersed portfolio, which includes countries

A £31 million clean growth loan from UKEF helped finish the new Bee'ah headquarters in UAE with increasingly acute risks from severe weather events and chronic risk caused by longer-term shifts of climate patterns.

The methodology and data sources we use to model these risks are still evolving. We are working with external partners to explore ways to improve the existing process to account for ESG and climate-related risks more holistically.

When assessing the robustness and resilience of our operations, we look at stresses aligned with the following Network for Greening the Financial System scenarios.

- **Orderly scenarios** assume climate policies are introduced early and in a coordinated way and become gradually more stringent. Both physical and transition risks are relatively subdued when compared to the other scenarios.
- **Disorderly scenarios** explore higher transition risk caused by transition policies being delayed or divergent across countries and sectors. Given the delayed implementation, these scenarios also include some more limited physical risks.
- **Hot house world** scenarios assume that some climate policies are implemented in some jurisdictions in line with commitments today, but global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded, leading to severe physical impacts, some of which are irreversible.
- **Too little, too late scenarios** explore transition risks similar to the disorderly scenario plus additional higher physical climate risks by assuming that climate policies are introduced too late, thereby failing to sufficiently decarbonise the economy. Greenhouse gas emissions would continue and increasing global temperature would fail to contain physical climate risks.

We have also introduced a new scenario during the semi-annual stress test, **hot house world and insurers' crisis**. This is based on the **hot house world** scenario, but assumes additional stress for the insurance sector as a result of a significant increase in claims – and ultimately potential capital shortfalls – related to more frequent and severe weather events. Given the underlying strength of the sector, this scenario was only marginally more negative. During the year-end stress test we introduced the orderly transition scenario which had only a marginal impact. We explored the **too little, too late** scenario but did not stress test it this year due to its similarity to the disorderly scenario and due to ongoing global decarbonisation efforts and additional commitments.

Some specific challenges for UKEF include the idiosyncratic characteristics of our portfolio, as well as the limited availability of data for the countries and regions where we have our largest exposures. While we have made progress, we remain committed to developing this area as geospatial data and historic climate change-specific financial data become more available.

Outlook

Climate-related financial risk analysis is an evolving field where methodologies are still maturing. Data providers are constructing models and new products which might eventually feed into default probabilities and credit ratings.

UKEF remains committed to improving the quality and robustness of its processes and analytics in this field. Complemented by a combination of tailored training programmes and recruitment of new subject matter experts, we will further strengthen our climate financial risk assessments, which are becoming integral parts of our credit risk analysis.

Together, specific counterparty metrics, new and improved portfolio scenarios and stress testing will strengthen our risk management decision-making.

We will support all these activities by actively engaging with peers, financial institutions and relevant forums to make sure UKEF follows good practice in this developing field.

Wrexham manufacturer Global Attractions won its largest ever contract in South-East Asia with UKEF backing

Portfolio Management Division (PMD)

When UKEF's guarantee, loan or insurance policy is declared effective for every medium or long-term transaction we support and the financial exposure data has been accurately logged on internal management information systems, the transaction is handed over from the Business Group teams to the Risk Management Group's Post Issue Management (PIM) team, housed within PMD. The PIM team is then responsible for all such transactions (including the ongoing review and monitoring processes) until prepayment, repayment or default.

The PIM team monitors amendments, waivers and compliance with financial covenants with the help of the agent of the lending banks under the UKEF guarantee. Requests for waivers, amendments and restructures are considered on a case-by-case basis and are reported and approved in line with the PIM Policy, under individual delegated authorities or through ERiCC as appropriate.

In the past year, we have seen our corporate (non-aerospace) exposures emerge relatively successfully from the crisis. While we restructured certain credits in this portfolio, these restructures are being worked through and no 'post-restructuring' defaults have occurred so far. We remain vigilant for these cases in particular as the risk of default is heightened after a restructuring.

During 2021-22, a small number of our non-aerospace cases developed stresses. This is expected in the normal course of taking on credit risk. Payments on these cases are current and we are working proactively to avoid and mitigate potential for loss.

Special Situations Division (SSD)

SSD was formed in 2020 as a response to COVID-19's particular and disproportionate adverse impact on UKEF's aircraft portfolio. The division is responsible for post-issue management and managing the restructured and distressed aerospace credits.

In the previous financial year, SSD focussed on immediate firefighting responses to the crisis. The introduction of the ECA Common Approach[5] prevented large-scale defaults across the aircraft portfolio.

In the current financial year, SSD's role has moved away from firefighting to managing the medium and long-term fallout of the crisis. Given the global nature of the aerospace industry and, by association, our risk, we are still seeing the effects of the crisis, even as markets begin to reopen.

Following the closure of the Common Approach in March 2021, SSD negotiated another 3 deferrals with airline counterparties in the current financial year and is in ongoing negotiations with 2 others.

SSD's distressed fleet has been reduced from 115 aircraft at the start of the financial year to 18. This has returned approximately £76 million to UKEF – though that figure will be understated by some margin, because SSD's success also avoided UKEF's obligation to pay significant future claims over very many years, as well as saving the substantial additional costs to the taxpayer of maintaining, insuring and remarketing the original, much larger distressed fleet. The administrative burden on the claims and recoveries side of the aerospace portfolio was effectively reduced by 85% in 12 months.

Claims and Recoveries

The Claims and Recoveries team resides within PMD. It is responsible for examining claims, assessing their validity and, if valid, paying out claims. It is also responsible for minimising loss for UKEF by recovering amounts due from counterparties and reclaiming compensation monies from ECA reinsurance counterparties.

COVID-19 led to a significant increase in claims paid over 2020-21 and 2021-22, mainly related to the downturn in the aerospace sector. The impact on other sectors has been smaller.

The Claims and Recoveries team regularly updates the Executive Committee, the Board, UKGI and HM Treasury on claims paid and claims under examination. The team also submits regular in-depth reports to ERiCC on all accounts it is responsible for.

Once a claim has been paid, the team makes provisioning recommendations in line with the provisioning policy and the claims and recoveries policy. A full provisioning exercise is conducted at the end of each financial year and updated at mid-year. The year-end exercise is discussed in detail by ERiCC, at which UKEF's external auditors are present, giving them an opportunity to ask questions and informing their final, formal audit opinion.

Pricing

We set risk-based premium rates for all of our products. Our pricing methodologies and parameters are reviewed annually by ERiCC, endorsed by the Board's Risk Committee and agreed by HM Treasury.

A key principle of our pricing is to maintain a level playing field. We therefore operate within the OECD Arrangement (a framework for the orderly use of officially supported export credits), where it applies. This requires all ECAs to charge risk-based premiums sufficient to cover their long-term operating costs and credit losses. This mirrors the WTO Agreement on Subsidies and Countervailing Measures, which classifies export credit guarantee programmes that do not cover their long-term operating costs and losses as "prohibited subsidies".

It is also our objective to support UK exporters' competitiveness, and it is our policy to set the lowest possible premium rates, subject to:

- the minimum rates set out by the OECD (where applicable – and in practice, the vast majority of our medium/long-term transactions are priced at these rates). For more information see OECD entry on page 243
- our international obligations, including subsidy rules
- no individual premium being below the expected loss of the associated transaction
- aggregate premiums satisfying our financial objectives

Financial objectives

HM Treasury has set UKEF 2 financial objectives.

1. **Premium-to-risk ratio (PRR):** the premium we charge must reflect the risk taken. Each month, we must show that the premium charged on the overall business issued, or forecast to be issued in the financial year, will be at least 1.35 times greater than an agreed level of expected and unexpected loss measured for each transaction at the time of pricing.

2. **Pricing adequacy index (PAI):** the premium we charge must be sufficient for us to operate at no net cost to the taxpayer over time. While the PRR is measured only over the current financial year, our PAI considers a 5-year time scale, applied across 3 accounting periods:

   - the 2 previous and the present financial years
   - the previous, current and next financial years
   - the present and the next 2 financial years

For each period, UKEF must demonstrate that the actual and forecast premium will cover and exceed the cost of doing business – meaning administration costs and an agreed level of possible losses.

These objectives do not apply to our TCRF portfolio or account 3 (business issued under Ministerial Direction – see page 127).

Forecasting approach

Business and premium forecasts are based on the judgements of our underwriters, who draw on transaction pipeline information, market intelligence and the likelihood of transactions materialising within the current or future financial years. We also perform regular sensitivity analyses to supplement these central forecasts and test the robustness of forecast financial performance against our PRR and PAI targets.

Portfolio modelling

UKEF uses its own portfolio risk simulation model (PRISM) to model credit risk at the portfolio level and to produce portfolio loss distribution curves. We also use the model:

- to carry out stress testing
- to simulate the extent and timing of potential cash outflows as a result of claims payments
- to inform cash flow forecasts
- for liquidity management

Modelling assumptions

PRISM operates under a range of assumptions, including correlation matrices and credit default behaviour. It is essential to keep these assumptions as up-to-date and as robust as possible. We do this through a regular review process, re-examining each assumption every 3 years. Each review is accompanied by a report to ERiCC, with recommendations for action as appropriate.

In 2021-22 we conducted major reviews into our modelling assumptions around credit ratings, aerospace recovery values and the basis of discounting.

The ratings review analysed the impact of the different ratings on portfolio results. It concluded that the main assumptions are still valid.

The aerospace recovery review examined the PRISM methodology for calculating potential losses on asset-backed aerospace transactions in the event of an airline default and repossession of the aircraft. We use a bespoke methodology for these loss calculations, originally based on UKEF's experience of repossessing aircraft following the events of 9/11. We recommended changes to several key parameters based on more recent empirical experience with airline defaults related to COVID-19. These reflect a generally improved aerospace recovery environment since 9/11, based on lessons we have learned from previous crises.

The discounting review recommended that UKEF replace LIBOR-based swaps with risk free rate-based swaps for discounting future cash flows. This was a UKEF-wide change, made necessary by the discontinuation of LIBOR. These recommendations were discussed with the LIBOR Project Board and the National Audit Office (NAO). As an additional benefit, they help to futureproof PRISM as we transition to new IFRS 9 and 17 reporting standards in the coming years.

Both reviews were extremely timely, given the impact of COVID-19 on the aerospace industry and the discontinuation of LIBOR. All their recommendations were approved by ERiCC and implemented in late 2021.

Stress testing and Scenario analysis

Our policy is to stress test our credit portfolio extensively every 6 months.

Stress testing assesses the impact of various adverse scenarios. These scenarios are designed to reflect potential emerging risks, such as a crisis in the Middle East or a collapse in oil prices, and more generic shocks, such as a 3-notch rating downgrade of sovereigns and corporates across the portfolio.

We continually monitor the risk environment to make sure we are revalidating, updating and expanding our range of scenarios and stresses as necessary. This was particularly necessary in 2020-21, with the onset of COVID-19 and the unprecedented shock it delivered to our portfolio and the global economy. The first months of 2022 have seen new geopolitical risks emerge, with an impact on the global economy and our portfolio. This year's stress testing has endeavoured to take these risks into account.

ERiCC reviews the results of the analysis and considers the impact of each stress or scenario on the value of the 99.1% point of the portfolio loss distribution, relative to the risk appetite limit of £5 billion. Although the TCRF portfolio is excluded from the £5 billion risk appetite limit, the impact of TCRF on the portfolio loss distribution is also analysed.

To complement this analysis, we also conduct reverse stress testing. Instead of quantifying the impact of specific scenarios on UKEF's portfolio, reverse stress tests identify the specific combination of portfolio impacts (such as risk rating reductions, loss given default increases, and industry or geographic correlations) required to breach our portfolio limits and cause our business model to become unviable. This helps us design strategies to mitigate the risk of such business failure.

Risk concentrations

Given UKEF's role, it is inevitable that we will have risk concentrations in our portfolio. Our portfolio modelling quantifies those concentration risks and helps to determine the maximum amount of exposure UKEF might assume on a single counterparty or group of related counterparties.

ERiCC will only consider approving a case or making a positive recommendation to the CEO if it is satisfied that a given level of credit exposure calculated using this modelling will not threaten any of the department's financial objectives.

Practical means of reducing risk concentration include reinsurance and counter-guarantees

A team meeting between members of the UKEF Risk Management Group from the private (re)insurance market, as well as from other ECAs. UKEF may seek (re)insurance when it is acting as lead ECA in a transaction where goods or services are sourced both from the UK and from other countries.

Active portfolio management

Our active portfolio management strategy aims to reduce concentrations of risk in our portfolio to decrease the likelihood of idiosyncratic losses.

Active portfolio management also creates headroom under country limits to support more UK exporters. Under this programme, UKEF can buy facultative reinsurance from the private market, subject to cost-benefit analysis and positive value for money.

During 2021-22, UKEF placed one new transaction in the private reinsurance market. Active portfolio management continued, maintaining focus on managing the current reinsured transactions, and we agreed a number of restructurings and amendments to existing insurance contracts.

Internal analytical and modelling consultancy

Our analysts also deliver high quality consultancy and modelling work for teams across UKEF.

Some significant examples in the current financial year include:

- a model to support the determination of provision rates for our defaulted portfolio, given the latest information on payment schedules and possible recovery outcomes, developed in partnership with the Claims and Recoveries team
- an analysis of the economic impact of the business we issue, in terms of the number of jobs supported, the results of which are published in this report and online
- an analysis of the risk modelling changes required for IFRS 9 and IFRS 17 compliance, as part of UKEF's Financial Reporting Changes programme
- leadership of UKEF's LIBOR transition project, coordinating the efforts of teams across UKEF – including legal, post-issue, underwriting, systems and analysis – to prepare both for new business and transitioning legacy deals to new risk-free rate terms

Finally, we have also begun some ESG and Climate Change portfolio modelling in conjunction with our external partners to ensure our ongoing compliance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Please see page 97 for further details.

Credit risk performance

The trend that has underpinned credit conditions during the past 12 months is the continued level of liquidity support. This includes formal support mechanisms from governments across the world and support from capital markets' willingness to continue financing even very high-risk transactions, as investors continued their search for yield in an environment of very low interest rates.

This support has allowed corporations to bridge liquidity gaps in sectors heavily affected by the pandemic and its indirect effects. It has also allowed sovereigns to raise finance at minimal cost to support their economies through cycles of lockdown.

This support has been critical as economies adjust to 'living with COVID-19', attempting to move away from the rolling lockdowns that characterised the previous financial year.

In terms of the effect on UKEF's portfolio, the sectors and associated counterparties at risk of the pandemic's direct and indirect consequences had generally been identified in 2020-21, and we took rating actions at that point. We did not envisage the eradication of COVID-19 over the short term, so any further rating actions related to the pandemic have been limited.

As a consequence, up until the Russian invasion of Ukraine, our corporate rating action during the year resulted in fewer downgrades than in 2020-21, with corporations and sovereigns becoming more effective at managing and mitigating the effects of the pandemic. This trend is not unique to UKEF – Moody's notes that between April and June 2020, 73% of its Industry Sector Outlooks were negative; yet by December 2021, 59% were stable and there were twice as many positive outlooks as negative.

Finally, UKEF has taken rating action on its Russian, Ukrainian and Belarussian exposures during February and March 2022, in the context of the direct consequences of the conflict and its wider impacts, such as potential capital controls and sanctions effects. While our direct exposures to Russia and Belarus are relatively modest, we do expect the wider economic implications of the conflict to have an adverse impact on our portfolio of sovereigns, corporates, airlines and insurers.

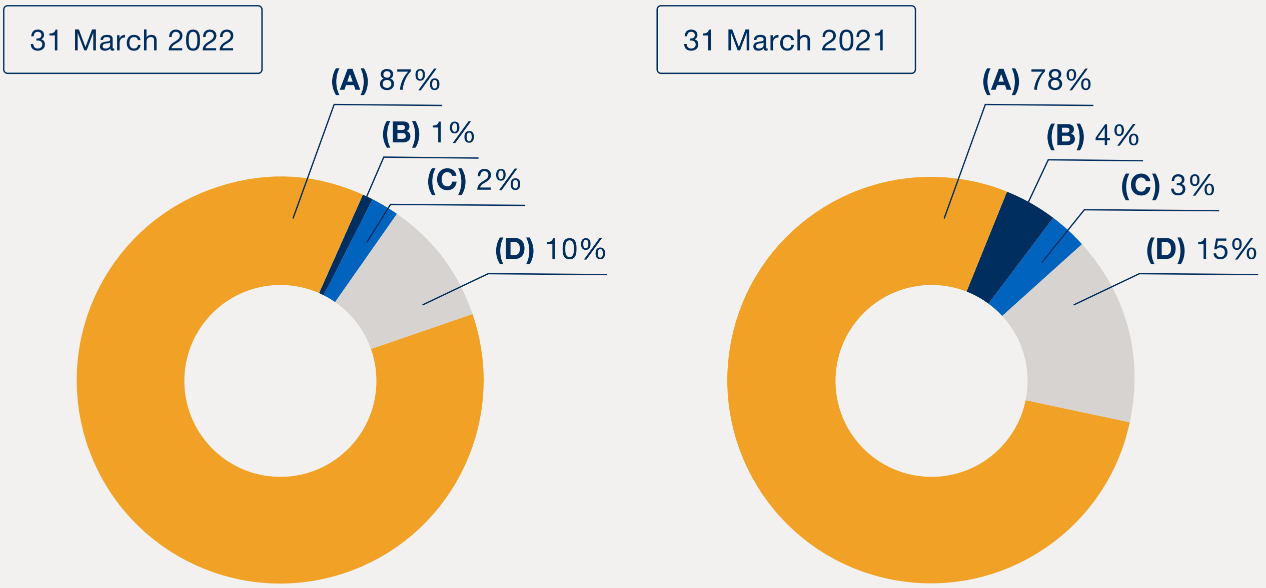
Credit risk exposure

Our total exposure in accounts 1, 2, 5 and 6 increased from £36.7 billion to £39.5 billion over the course of the last year. This includes exposure contributions from amount at risk (AAR), commitments, issued not effective and claims. All references to exposure from this point (unless otherwise stated) concern these 4 accounts; excluding account 3, where we book national interest related transactions, but including account 6, the designated COVID-19 specific account. For details of the business included in each account, see page 84.

While UKEF's AAR (net of reinsurance and not including commitments) showed a slight proportional deterioration in terms of credit quality (see chart on page 69 and commentary on page 70 for details), this was largely offset by new business commitments involving relatively well-rated counterparties. The overall quality of our portfolio, quantified via the weighted average credit rating, remains, as in 2020-21, at B+.

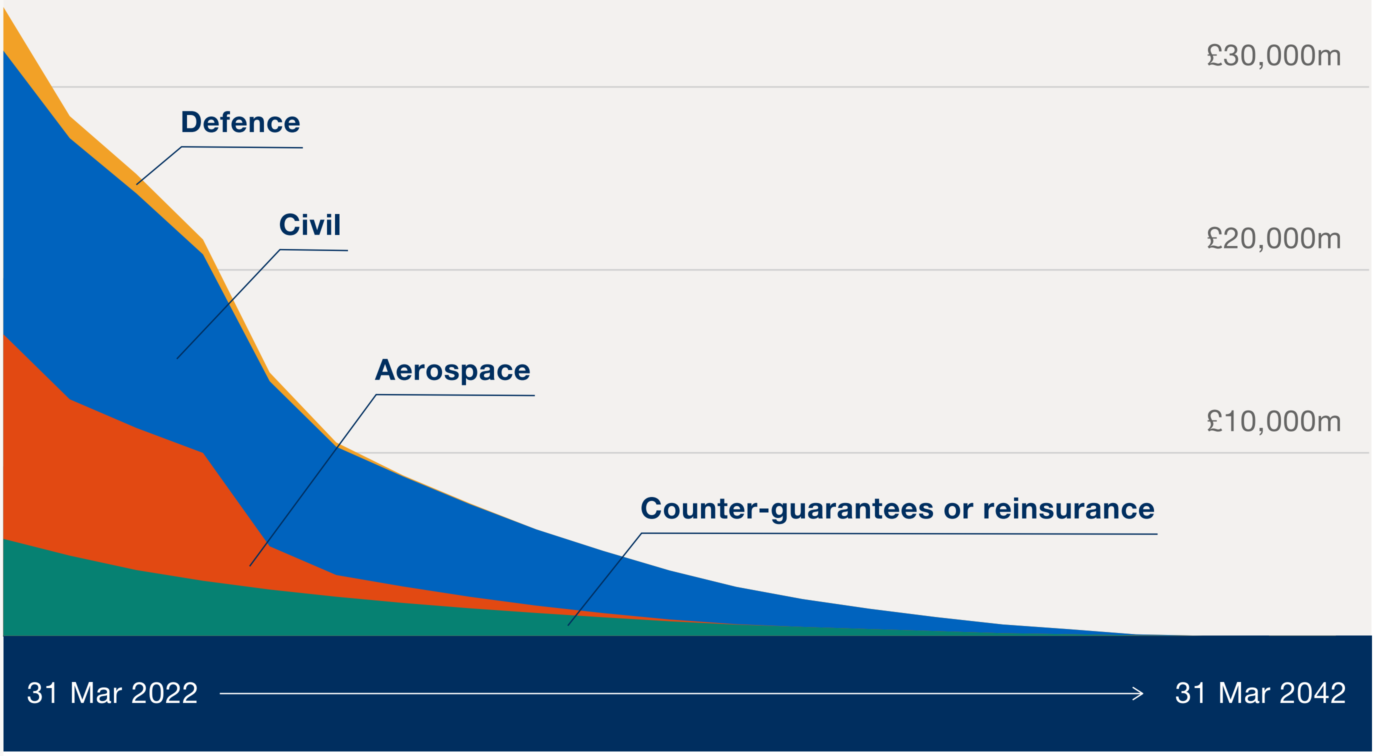
The portfolio remains within all of its major framework limits, including its maximum commitment limit of £60 billion (including TCRF), risk appetite limit of £5 billion, individual counterparty limits and industry sector and geographic concentration limits. We were,

Breakdown of credit risk exposure between amount at risk, claims (principal and interest) and commitments



(A) AAR (gross of reinsurance)
(B) Claims balance principal
(C) Claims balance interest
(D) Commitments and issued not effective

How we expect our current portfolio to run off



once again, also fully compliant with all of our financial objectives relevant to the credit portfolio (see page 33).

Our bi-annual stress testing and scenario analysis modelling and annual reverse stress testing exercise collectively underline the ongoing resilience of the portfolio in all but the most extreme of events – including a prolonged global pandemic.

At 31 March 2022, our total amount at risk amounted to £34.4 billion (£28.4 billion at 31 March 2021) – making up 87% of our credit risk exposure (see chart on page 65). This figure includes £4.5 billion of counter-guarantees provided to UKEF by other ECAs (£3.9 billion in 2021), principally related to Airbus business, and £0.8 billion of private reinsurance used to manage risk concentrations in our portfolio (£0.8 billion in 2021).

The vast majority of our credit exposure is made up of medium to long-term finance. In terms of overall amount at risk, we expect around 17% of our current portfolio to run off over the next 12 months, with around 58% of the current portfolio expiring within 4 years (see chart).

Risk concentrations

The UKEF portfolio continues to be dominated by long-dated, emerging market risk, consistent with our role as the UK's ECA. We have relatively limited control over the geographical or sectoral composition of our portfolio, given our mandate to support UK exports and export destinations.

By geography

The Middle East continues to account for a major part of UKEF's portfolio: 26% as at 31 March 2022.

However, this has been surpassed by exposure to Europe, which stands at 45%. This shift largely resulted from a number of very sizeable Export Development Guarantee facilities issued to some high-profile UK corporations, some of them related to COVID-19.

Exposure to Africa has increased slightly – largely as a result of transactions in Ghana, Côte d'Ivoire, Senegal and Ethiopia – and now stands at £4.6 billion (16%) up from £3.9 billion (16%) last year. We continue to monitor our exposures across the continent very closely, given the significant increase in external debt burdens as a result of COVID-19, the increasing interest rate environment, inflation, supply chain issues and an overall weaker outlook.

Our sovereign portfolio continued to face pressure from the lagged effects of the pandemic. However, rating downgrades have slowed in 2021 compared to 2020 and, given new transactions this year with some of our stronger sovereign customers, our sovereign portfolio credit rating has improved from B- to B.

Our key concern looking ahead is the uncertainty around the global economic recovery caused by the war in Ukraine. Interest rates increasing in advanced economies to combat higher inflation could lead to an outflow of capital from some emerging markets and developing economies (EDMEs). There are also refinancing risks, particularly regarding the significant build-up of debt, where both absolute levels of debt and the related servicing costs remain a cause for concern.

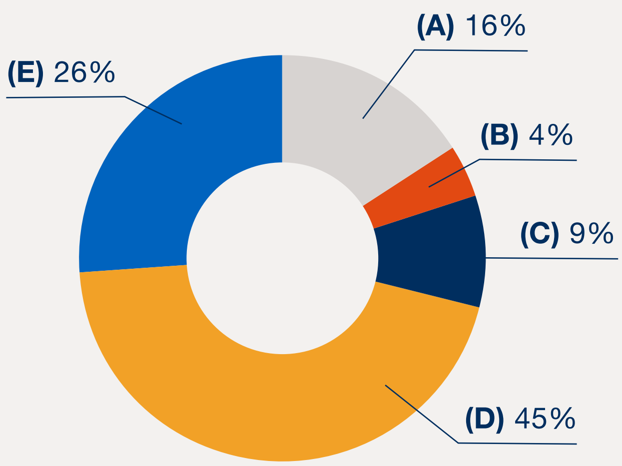
We remain focussed on our exposure to emerging markets. In addition to severe pressures from COVID-19 – vaccination rates remain disturbingly low across these markets – emerging markets are faced with ongoing fallout from the Ukraine crisis. This includes food shortages and an increasingly hostile macroeconomic backdrop in terms of inflation, high energy prices and interest rate expectations driven by policy tightening in developed markets. We are consequently focussing our country visit programme across these fragile economies, with trips to Türkiye, Uganda and Angola already completed and preparations well advanced for meetings in Egypt.

We are continually assessing the second order impacts of the invasion of Ukraine on our corporate and aerospace portfolio, in particular the risks posed by sanctions, capital controls, supply chain disruptions and commodity price inflation. We remain vigilant to exposures that we consider at heightened risk.

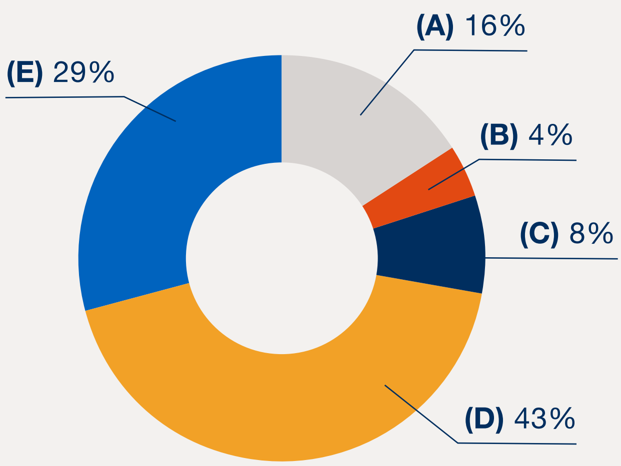
Despite these downside risks, rising oil prices are expected to benefit oil producing economies in the Middle East, where a quarter of UKEF's exposure resides.

Regional breakdown of net amount at risk

31 March 2022

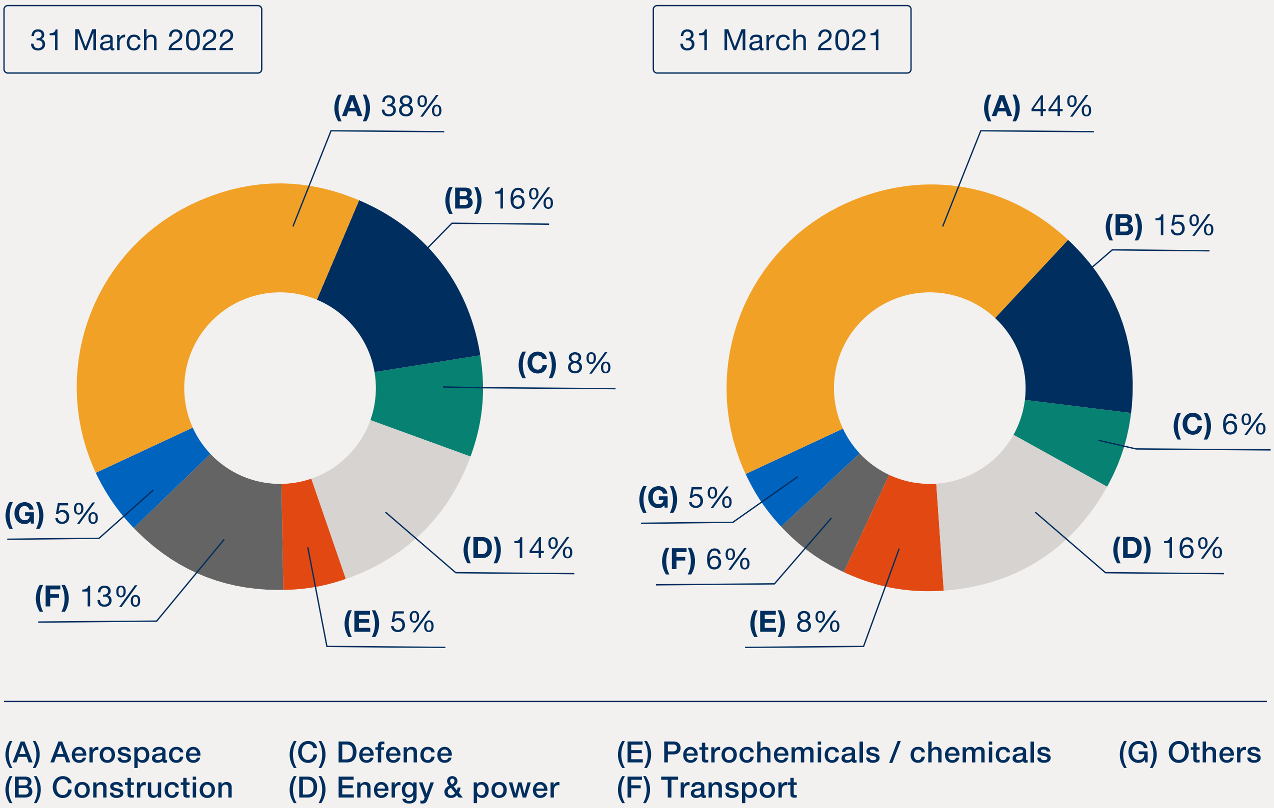


31 March 2021



(A) Africa
(B) Americas
(C) Asia & Pacific
(D) Europe
(E) Middle East

Sector breakdown of net amount at risk



By sector

The UKEF portfolio continues to be dominated by the transportation (aerospace and, increasingly, automotive), construction and defence sectors.

The outlook for the passenger aerospace sector is now mildly positive, as passenger volumes continue to recover. While the speed of recovery differs by geography, and domestic travel is recovering more swiftly than international, by the end of 2021, passenger volumes were estimated at 69% of pre-pandemic levels in the US, 63% in Latin America and 34% in Europe, with all markets expected to fully recover by 2024.

The key downside risks relate to the potential for new COVID-19 variants that are more capable of evading population immunity against severe disease; prevailing (and forecast) high jet fuel prices; and uncertainty on certain travel routes/passenger demand as a result of the war in Ukraine.

The outlook in the automotive manufacturing sector is negative, following moderate 5% unit growth in light vehicle volumes during 2021. Before the Russian invasion of Ukraine, we expected unit sales growth in the mid-single digits for 2022. Now, however, we expect low single-digit volume declines with continued supply-chain disruption and potentially significant cost inflation. During 2021 automotive manufacturers were largely able to offset the volume restriction effects of semiconductor supply shortages with product-mix management and sales price hikes, and whilst ongoing strong customer demand is currently supporting a continuation of this trend it is uncertain whether they will be able to keep this up against the backdrop of ongoing supply chain challenges, high commodity prices (and consequent cost inflation) and pressures on household disposable income.

Construction exposure is largely focussed on the Dubai real estate sector. While we see continued market over-supply in Dubai, we note that in 2021, hotel occupancy had recovered to 66% (compared to 74% pre-pandemic) – the highest level across global city peers – and that average residential sales prices and transaction levels were up 12% and 60% respectively on 2020. This trend is unsurprising, as demand for Dubai's commercial and residential real estate is linked to international travel.

Generally, 2021-22 saw only a few changes in the ratings of banks, insurance counterparties or other NBFIs globally. While banks and NBFIs have been affected by the pandemic, they have coped reasonably well, helped by solid reserve and capital positions and swift policy support from authorities worldwide. However, we do expect to see deterioration in the financials of some banks and other financial institutions in some jurisdictions as support is withdrawn in 2022-23.

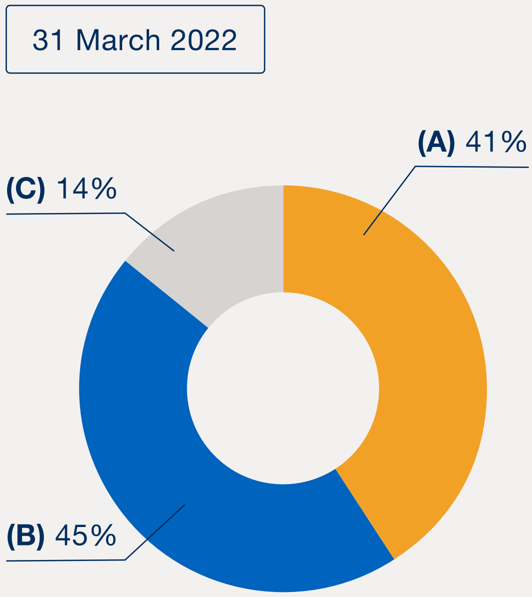
The war in Ukraine will be another challenge for insurers, and early indications are that large claims relating to aircraft are to be expected. However, we expect the impact from Ukraine on insurers, like COVID-19, to be an 'earnings not capital' event: the operating environment has deteriorated, but the insurance sector generally remains highly capitalised and we are not anticipating downgrades at this point.

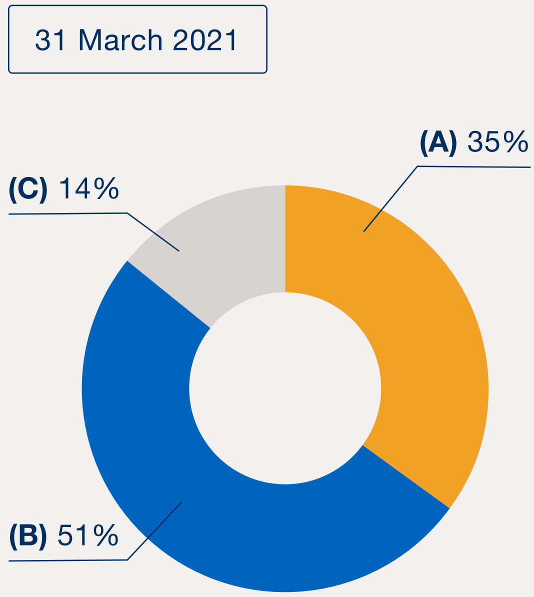
UKEF has exposure to a relatively narrow, well established and top tier niche of airline operating lessors. The majority of these remain investment-grade, with no rating downgrades and no defaults in 2021-22.

Rating agencies' outlook for this sector is also currently stable, owing to lower than anticipated impairment charges, strong liquidity management and successful vaccination rollouts influencing the recovery of domestic travel, especially in the United States. We remain somewhat more cautious, given the likely fallout on the wider aerospace sector from the impact of international sanctions.

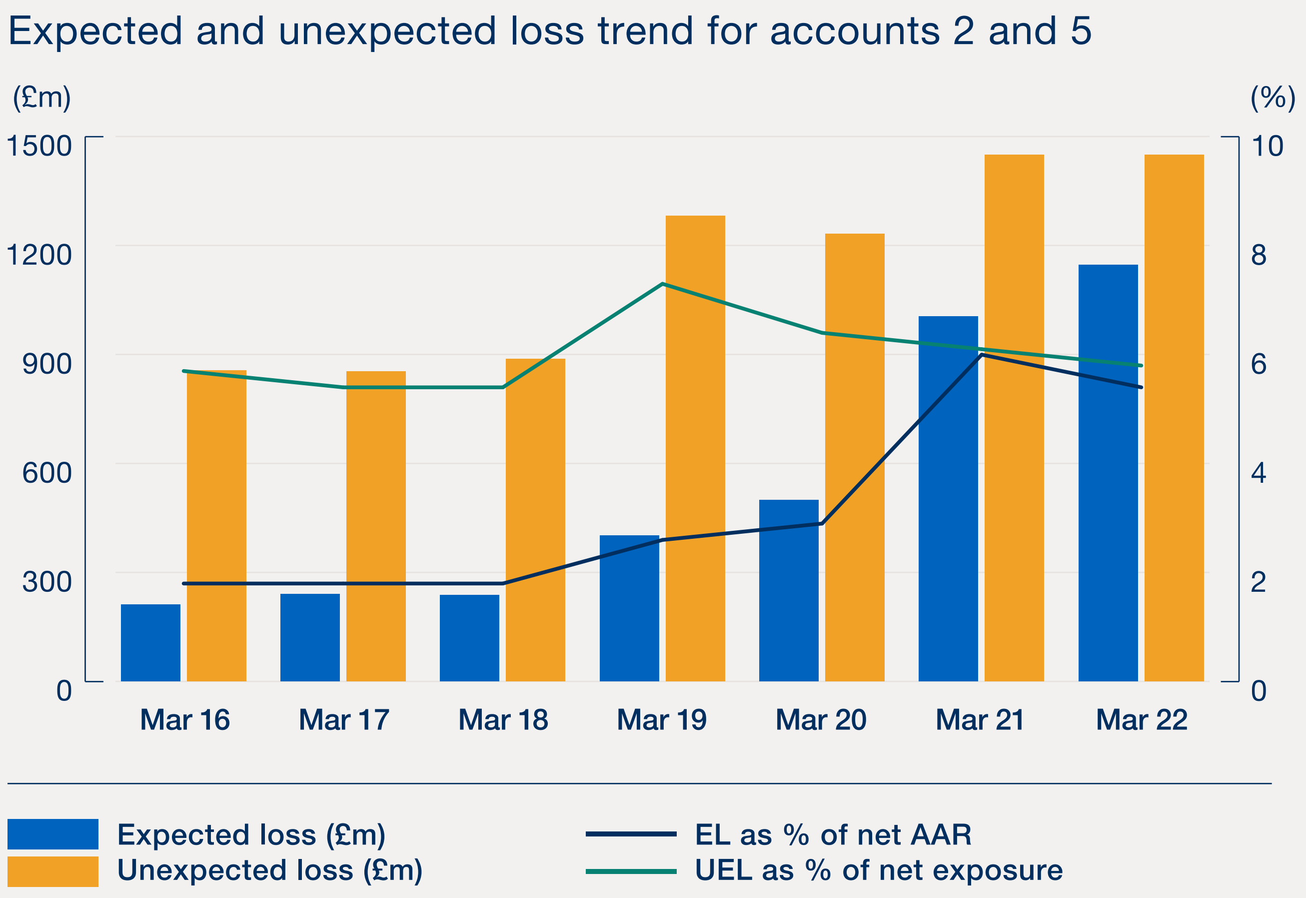
In conclusion, while credit conditions for borrowers were improving until the start of 2022, against a backdrop of continuing central bank liquidity and tight spreads, significant challenges have emerged over the past 3 months on account of the war in Ukraine and the lingering effects of COVID-19 (delayed and uneven vaccine rollout, the potential threat of new COVID-19 variants, lockdowns in China), leading to a much weaker global economic outlook. We expect significant pressures building up in emerging markets, where a large proportion of our exposures reside.

Net amount at risk by credit rating





(A) B+ or below **(B) BB+ to BB-** **(C) Investment grade**



Credit risk quality

Following a rapid deterioration in the portfolio during 2020-21, marked by several airline insolvencies and rating downgrades across sovereigns and corporates, the credit risk quality of our portfolio (excluding commitments) showed a milder deterioration during 2021-22. Sovereign rating downgrades, for example, fell dramatically from 50 in 2020-21 to only 26 in 2021-22, with corporate rating affirmations or upgrades accounting for nearly 60% of all corporate rating movements (versus 43% in 2020-21).

On 31 March 2022, 41% of our amount at risk (net of reinsurance) was rated B+ or below by UKEF (compared to 35% in 2021). This small increase arose in part from new business issued in the year and in part from rating movements related to existing transactions.

This was reflected in our portfolio expected loss (across accounts 2 and 5, excluding commitments), which increased from £1,005 million to £1,146 million, representing approximately 5.4% of the amount at risk (net of reinsurance).

Portfolio unexpected loss is essentially unchanged at £1.4 billion as of 31 March 2022, representing approximately 5.8% of total net exposure.

Risk appetite limit

The relative stability of the UKEF portfolio was further illustrated by the weighted average portfolio credit rating (including commitments) remaining stable at B+. This was largely the result of executing the majority of our new deals in relatively well-rated markets offset, to an extent, by some large deals with credit-challenged sovereign borrowers.

As a result, the projected portfolio loss to the 99.1 percentile (including accounts 2 and 5 only) remained stable at around £3.1 billion, after the significant increase in 2020-21 from £2.0 billion to £3.0 billion on the back of a combination of significant negative rating migration and a substantial increase in the overall portfolio. Risk appetite limit consumption of £3.1 billion, implying headroom of approximately £1.9 billion, continues to be comfortably within UKEF's £5 billion notional capital limit, as prescribed by HM Treasury, providing sufficient capacity for future growth.

Portfolio stress testing

We started the year 2021-22 with our focus fully on COVID-19, which posed some big questions for our portfolio stress testing, including:

- how the pandemic would progress
- how successful the various mitigations – policy support, lockdowns and vaccines, for example – would be

As the year progressed, bringing a surge in new cases in October to December in many countries, it became ever clearer that COVID-19 would be with us for the medium term. It has now become part of our baseline view of the risk in our portfolio, via rating reviews and downgrades.

Our COVID-19 themed stress testing now focusses on the most severe scenario, with new variants, underperformance (or under-adoption) of vaccines and more lockdowns driving renewed pressure and portfolio deterioration. Given the ongoing weakness of many of our counterparties and the global economy, this leads to a clear and substantial breach of our risk appetite limit.

As this financial year came to a close, political risk became an additional imperative for stress testing. The war in Ukraine, although most directly connected to us through our exposures in that country and Russia, has also had a much wider impact on commodity markets and international trade and financial flows. To explore the potential consequences of this situation for our portfolio – but distinct from a judgement about its probability – we have developed a new Cold War scenario, where the geopolitical tensions driving the conflict in Ukraine persist and spread to other regions. This leads to a decoupling of the global economy between developed and developing markets, and adverse impact via lost trade and weakened global economic activity.

This scenario has a very negative impact on our portfolio, albeit not enough to lead to a breach of our risk appetite limit. As with all our stress testing scenarios, we carry out such simulations to better understand their impact on our portfolio were any of them to occur (and not based on the likelihood of occurrence).

A third important area of focus for our stress testing is climate change. We have developed and analysed a number of scenarios, described on page 58.

New claims paid in the year

Since April 2021, UKEF has continued paying claims on the airlines that defaulted in the previous year. In addition, we paid new claims on Air Mauritius, Thai AirAsia and Malaysian Airlines, the latter under an agreed consensual deferral. We also paid a relatively small amount in new non-aerospace claims.

In this financial year, UKEF has paid a total of 188 individual claims, amounting to a net outflow of £103.1 million, using foreign exchange rates applicable at the time each claim was paid.

One hundred and eighty-four were claims in the aerospace sector and 4 in other sectors. The aerospace claims are all secured against aircraft that are the subject of the underlying financings. This materially enhances the possibility of recovery of any claims paid. Evidence of this was the significant recoveries made (post the payment of claims) on Latam, Avianca, Comair, Thai AirAsia and Air Mauritius.

The non-aerospace claims continued to be lower than expected despite the extent of the pandemic, though we are beginning to observe a gradually increasing trend.

Outstanding claims paid, provisions and impairments

Outstanding claims paid on account 2 from business issued after 1991 moderately increased year on year to £470 million at 31 March 2022 (from £415 million in 2020-21), as we continued paying claims on aerospace transactions. As mentioned above, some of these claims paid were partially offset by significant recoveries.

A number of repayments due from low-income sovereigns were rescheduled on a net present value-neutral basis in line with the G20/Paris Club DSSI, which ended on 31 December 2021. Sovereign exposure in Zimbabwe still makes up a considerable part of this total exposure. Recoveries under historical aerospace claims have now been completed in accordance with agreed rescheduling and final wrap-up of the relevant insolvencies.

The overall provision amount for account 2 business as at 31 March 2022 was £542 million (down from £682 million in 2020-21), mainly on account of successful recoveries in the aerospace sector. We used a newly developed model of future recovery prospects to calculate provision rates.

We also still hold a number of outstanding claims, subject to recovery, on business issued and defaulted before 1991. Almost all of the £737 million of outstanding claims paid on this business (down from £1.31 billion in 2020-21) refers to sovereign exposure that is subject to Paris Club rescheduling, the most significant part of which is for Sudan (including a substantial amount owing to accrued interest). A large amount of Sudan debt (around £578 million) was cancelled in 2021-22 further owing to it reaching the heavily indebted poor countries decision point. The debt had already been fully provided for in the year so there was no impact on UKEF's net operating income in 2021-22.

The overall provision amount for this business had decreased significantly on 31 March 2022 to £551 million (down from £1.11 billion in 2020-21).

UKEF has a long history of managing claims and recoveries across its portfolio. Using experience gained through previous downturns, we were able to react quickly, creating new teams and recruiting the experienced staff needed to operate in these circumstances.

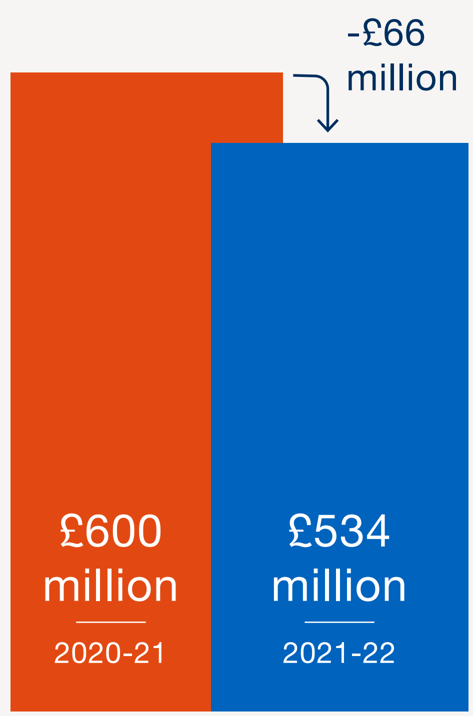
Where objective evidence exists of an impairment loss arising from UKEF's direct lending portfolio, we perform a calculation to determine if an impairment loss should be recognised. Total impairment of the direct lending portfolio increased to £83.9 million in 2021-22 (up from £44.2 million in 2020-21), mainly on account of a new impairment on Ukraine.

Where it is practical and represents value for money, UKEF will restructure debt to enable the counterparties to continue to trade out of the crisis. Using our experience and our analysis of the current and future situations, we are able to review and respond to restructuring proposals in-house.

Recoveries

Overall recoveries (on all business, both principal and interest) amounted to £117 million as at 31 March 2022 (compared to £89 million in 2020-21), reducing total recoverable claims (excluding interest on unrecovered claims) to £534 million (£600 million in 2020-21). The vast majority of recoveries related to aerospace claims, which were completed in accordance with agreed scheduling and final wrap-up of the relevant insolvencies, and Paris Club recoveries. Recoveries relating to sovereign and corporate debt reschedulings made up the balance. See Historical Financial Performance charts on page 26.

Total recoverable claims



We expect recoveries from non-sovereign claims paid (mainly the remaining distressed assets in the aerospace portfolio in 2021-22 to take several years to materialise, as we trade, hold or sell assets according to value for money calculations which reflect current and future market conditions.

Aerospace recoveries

Of the 115 aircraft which were in insolvency protection in June 2020, 97 have been successfully restructured, of which 43 have been repaid or prepaid. The 18 aircraft we have or will repossess are secured in favour of the lenders, who are paid claims under guarantees. When SSD repossesses those assets, it directs the leasing and/or sale of those aircraft to recoup the claims payments made in respect of them.

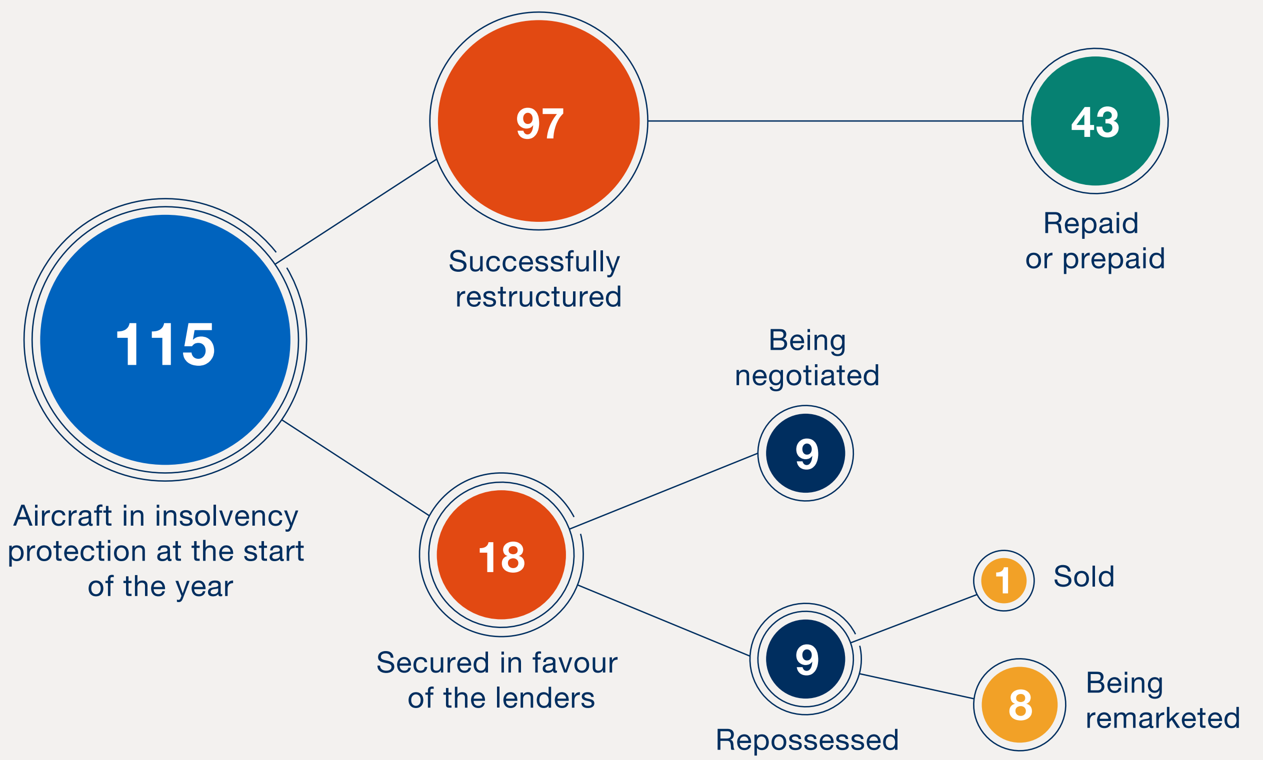
Of those 18 aircraft, we have repossessed 9 and are currently remarketing 8 of those. The ninth aircraft was sold for an amount that covered our exposure (including the recovery of the claims we paid), fulfilling our mandate to operate at no cost to the taxpayer. We cannot be certain that the number will remain static over the coming months, given the potential longer-term impacts of COVID-19 and the war in Ukraine on the aerospace sector.

The timing and quantum of any decision on leasing or sale will be in line with our mission statement (to aim to make full recoveries, in the long term, over the portfolio as a whole). This requires both a recognition of the likely general market conditions we will be faced with, and a means to achieve that recovery.

The aerospace market has a history of periodic sharp downturns, followed by recovery, then many years of upturn, before another periodic downturn. While the scale of the pandemic-induced downturn is unprecedented, UKEF has managed to considerably reduce its exposure to insolvent airlines through negotiated settlements.

UKEF was able to rely on its strengthened legal controls and documentation, which it put in place following the events of 9/11, to position itself favourably in those negotiations. We saw the benefits of those changes in the

Aviation recoveries



COVID-19 crisis. We have unparalleled access to manufacturers, airlines, remarketers and industry players built up through years of experience and we were able to use those to secure the outcomes we did. There is work to be done and the global aerospace market remains unstable.

While COVID-19 has caused a downturn very significantly worse than all these previous crises and although there are major challenges ahead, managing and mitigating credit risk taken on behalf of the taxpayer is a core function of the department, and we have the capability needed to respond to the situation.

Despite these challenges, UKEF has successfully restructured 85% of its defaulted aircraft fleet and returned a total of £76 million in repayments and prepayments, from airlines that have been in insolvency protection and from the sales of repossessed aircraft.

SSD continues to work out the much smaller distressed fleet and this will continue over the next few financial years. In comparison, UKEF sold its last repossessed 9/11 aircraft in 2016, some 15 years after the crisis. We therefore remain confident that our further recovery efforts will yield material mitigation of ultimate loss, and possibly full recovery of claims paid.

A £3 million General Export Facility helped Swansea-based clothing company Character.com grow their business

Notes

1 The maximum commitment and risk appetite limit are no longer subject to adjustments owing to exchange rate movements.

2 The reserve index is the ratio of a) cumulative reserves plus associated provisions to b) the aggregate of the value of the 77.5 percentile point on UKEF's portfolio loss distribution plus provisions. At the end of each month, the index must be at least 1.

3 Expected loss applies both at an individual transaction level and at a portfolio level. At a portfolio level, it is simply the sum of the expected losses of all risks in the portfolio and equates to the mean of the portfolio loss distribution.

4 The OECD Arrangement, sometimes referred to as 'the Consensus', limits self-defeating competition on export credits among members of the OECD. OECD members undertake to operate within these guidelines when providing official support for export credits of 2 years or more.

5 In March 2020 UKEF, Euler Hermes and BPI agreed a common set of terms (the "Common Approach") to respond to and mitigate the profound impact of COVID-19 on the aerospace sector. The terms involved the deferral of principal payments due on pre-agreed terms.

Statutory limits

The Export and Investment Guarantees Act (EIGA) 1991 sets limits on our commitments and requires us to report our commitments against these limits annually. The table below shows the statutory limits at 31 March 2022 and 31 March 2021 and the outstanding commitments against them.

	At 31 Mar 2022				At 31 Mar 2021			
	Sterling £m	Foreign currency SDRm	Sterling equivalent in SDRs SDRm	SDR total SDRm	Sterling £m	Foreign currency SDRm	Sterling equivalent in SDRs SDRm	SDR total SDRm
Section 6(1) of the EIGA amounts								
Statutory limit		67,700	–	67,700		67,700	–	67,700
Total commitments	10,432	32,574	9,905	42,479	8,218	29,257	7,981	37,238
Section 6(3) of the EIGA amounts								
Statutory limit		26,200	–	26,200		26,200	–	26,200
Total commitments	–	–	–	–	–	0	–	0
Section 6(1) amounts								
Assets	–	0	–	0	–	0	–	0
Section 6(3) amounts								
Assets	1	–	1	1	2	–	2	2

Mace received a £50 million loan guarantee with sustainability targets to bolster its growing export business

Chief Finance and Operating Officer's report

This report describes and comments on UKEF's financial performance for the year ended 31 March 2022. Given the importance of the management of UKEF's portfolio, this report should be read alongside the Chief Risk Officer's report (see page 45).

Cameron Fox
Chief Finance and Operating Officer

This improvement during the year has resulted in reductions in required reserving (reversal of 'top ups' on the underwriting funds), owing largely to provision releases and expected loss reductions in relation to aerospace exposures (see the Chief Risk Officer's report for more details).

Financial results overview

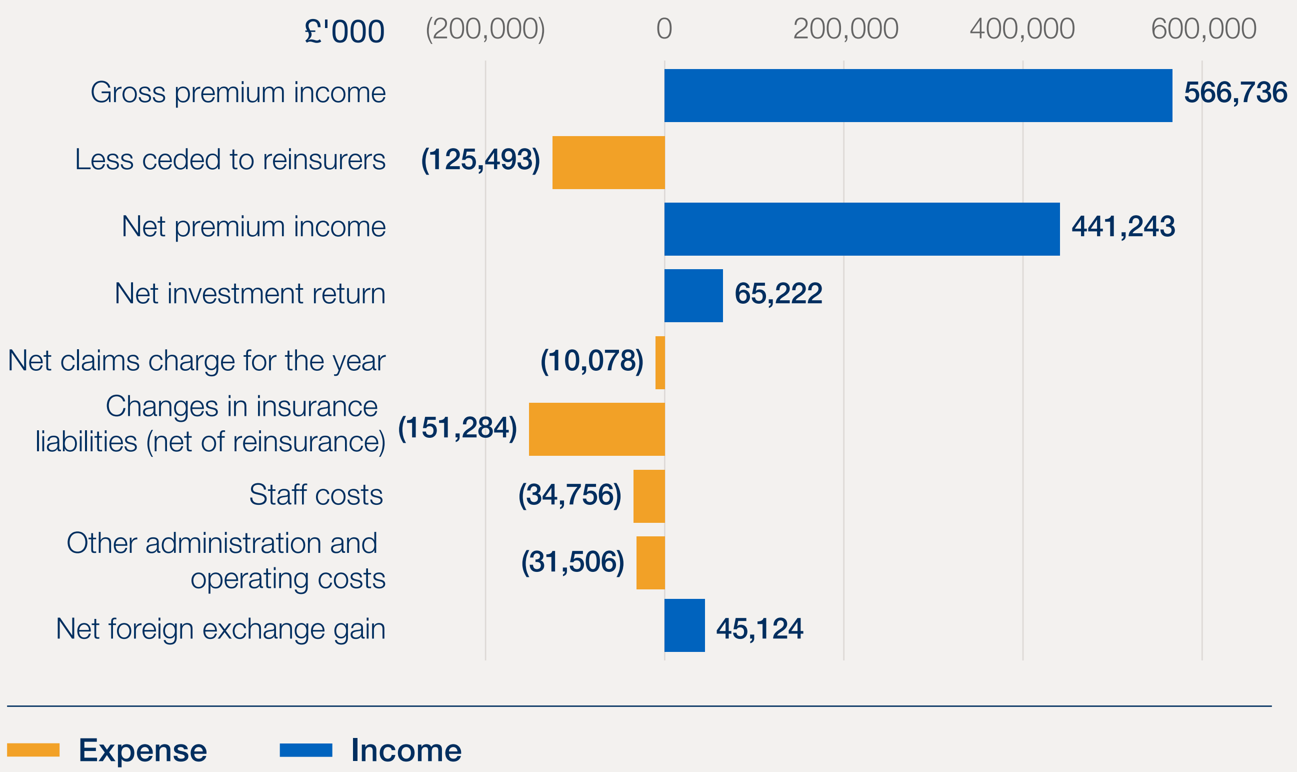
UKEF is reporting a net operating gain of £324 million for the year ended 31 March 2022, compared with a net operating loss of £217 million for the year ended 31 March 2021.

On a foreign exchange-adjusted basis, the net operating gain for the financial year 2021-22 was £279 million, compared with a net operating loss of £79 million for the year to 31 March 2021. This change results primarily from improvements in outlook and performance for UKEF's existing portfolio, which was hit heavily by the coronavirus (COVID-19) pandemic last year, especially in the aerospace sector.

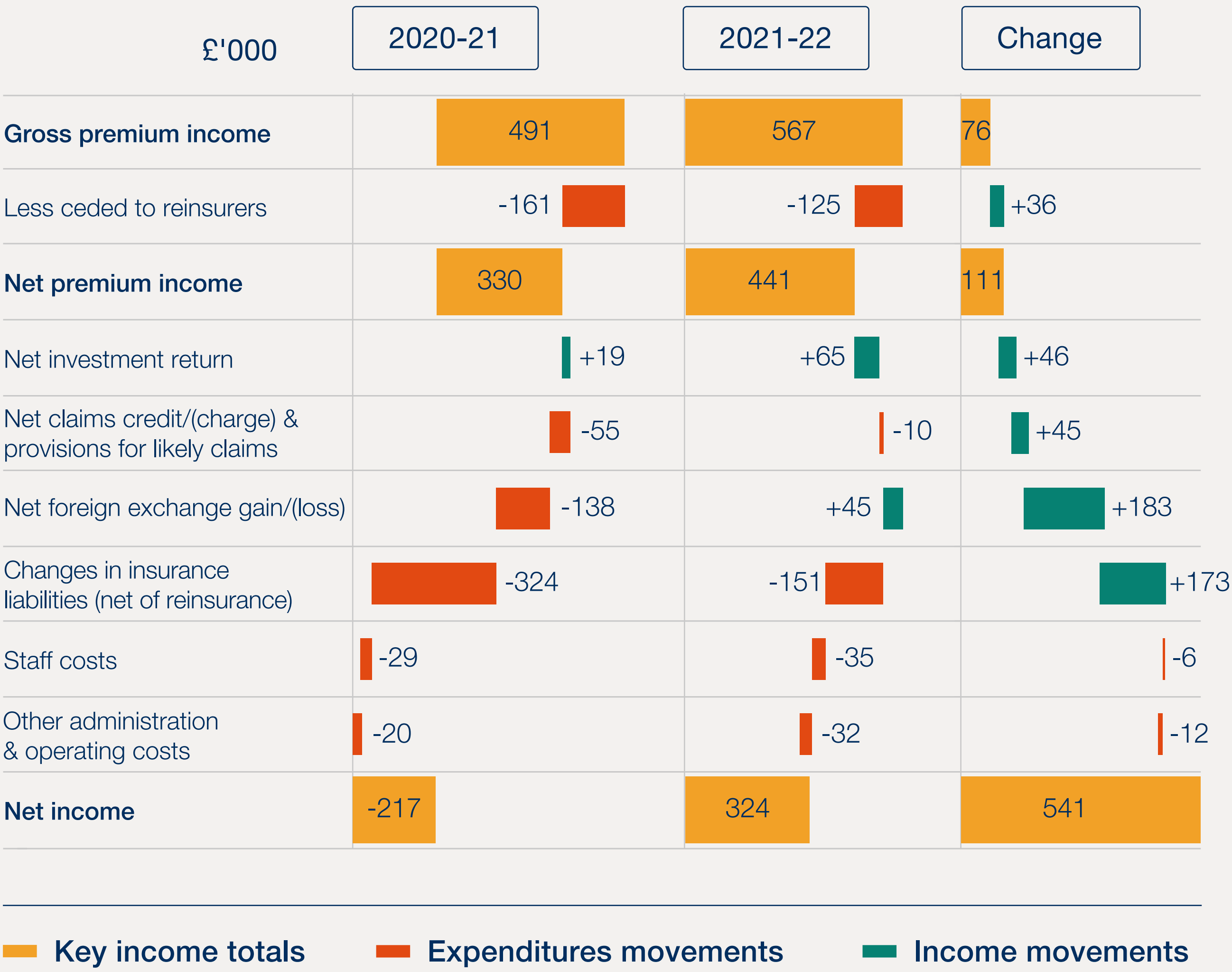
Northern Irish start-up Circular Group secured a major recycling contract with UKEF backing

Summary of profit and loss	2021-22 £'000	2020-21 £'000
Income		
Gross premium income	566,736	490,737
Less ceded to reinsurers	(125,493)	(160,932)
Net premium income	**441,243**	**329,805**
Net investment return	65,222	18,682
Net foreign exchange gain	45,124	–
Total income	**551,589**	**348,487**
Expenses		
Net claims charge for the year	(10,078)	(54,488)
Changes in insurance liabilities (net of reinsurance)	(151,284)	(324,389)
Staff costs	(34,756)	(28,413)
Other administration and operating costs	(31,506)	(20,333)
Net foreign exchange loss	**–**	**(138,084)**
Total expenses	**(227,624)**	**(565,707)**
Net income/(loss)	**323,965**	**(217,220)**
Net income/(loss) (FX-adjusted)	**278,841**	**(79,136)**

Statement of comprehensive net income for 2021-22



Comparison of statement of comprehensive net income



Insurance and underwriting activity (premium income)

Net premium income revenue earned:

- 2021-22: £441 million
- 2020-21: £330 million

Net insurance premiums written increased by £111 million since the year 2020-21, mainly because of the Export Development Guarantee (EDG) product.

For the breakdown of insurance premiums, see note 3 to the financial statements (page 187). Also see note 1 for details of the relevant accounting policies (page 173).

Net investment return

Net investment return for export credit guarantees and insurance activities:

- 2021-22: £14 million
- 2020-21: £4 million

Net investment return for export finance activities:

- 2021-22: £51 million
- 2020-21: £15 million

Net investment return mainly comprises interest income receivable for the year, impairments and provisions on loans and receivables, and changes in unrealised gains and losses on financial assets classified as 'fair value through profit or loss'.

Decreases in provisions in relation to the aerospace portfolio in the current year are largely responsible for the change in return for export credit guarantees and insurance activities. An increase in interest income on a larger direct lending loan portfolio is mainly responsible for the change in return for export finance activities.

For the breakdown of net investment return, see note 3b to the financial statements (page 188). Also see note 1 for details of the relevant accounting policy (page 173).

Net claims credit (and provisions for likely claims)

Net claims paid:

- 2021-22: £103 million
- 2020-21: £107 million

Since the beginning of the COVID-19 pandemic, UKEF has experienced a significant increase in claims paid, mainly related to the downturn in the airline sector. Other sectors have so far remained materially unaffected.

A number of airlines' financial positions have since improved. The improved position of the airline sector is largely responsible for the decrease in claims paid this year.

See the Chief Risk Officer's report for more details of UKEF's claims position.

Also see notes 1b, 5 and 10 to the financial statements. Note 1b explains the significant uncertainty arising from UKEF's underwriting activities (page 175). Note 5 provides a breakdown of net claims credit (page 189) and note 10 provides details of recoverable claims and unrecovered interest (page 195).

Foreign exchange

During the year, sterling depreciated by approximately 4% against the US dollar.

As a significant proportion of UKEF's guarantees, insurance policies and loans are written in foreign currencies (mainly the US dollar but also the euro), UKEF is exposed to foreign currency risk and associated volatility in terms of the financial results.

UKEF is not authorised by HM Treasury to hedge exchange rate exposures.

See notes 6 and 20 to the financial statements, which include details of the currency profile of our insurance assets, financial instruments and capital loan commitments.

Reserving for insurance liabilities

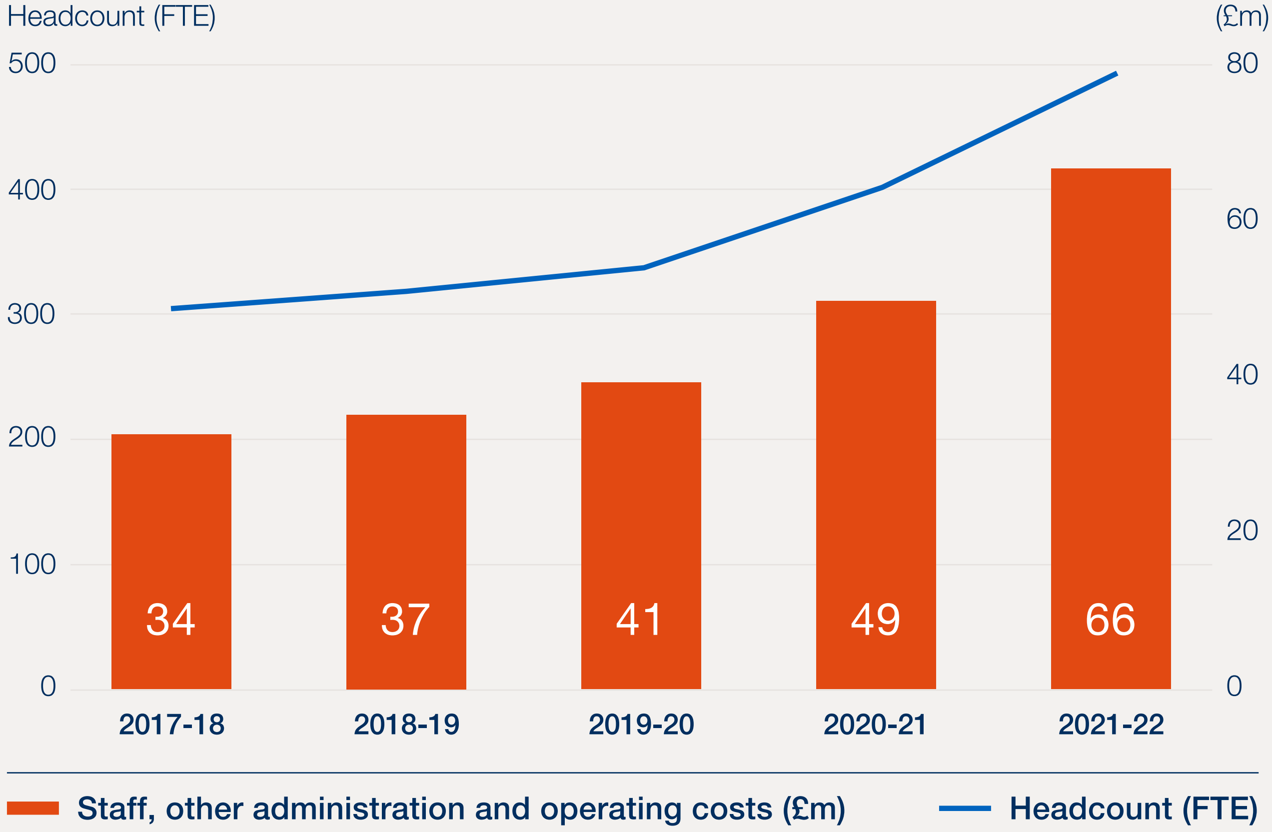
(Net) underwriting funds at year end:

- 2021-22: £1,434 million
- 2020-21: £1,283 million

UKEF applies the fund basis of accounting for its medium and long-term business. The increase in funds was the result of new business written in-year.

Releases from the funds during the year (being business written in 2012 and 2018) was some £40 million in 2021-22, compared with £52

Operating costs and headcount



million in 2020-21. This release (which is a surplus of premium written over risk and costs of writing the business) reflects the quality of the underwriting and credit decisions made in 2012 and 2018.

See note 18 to the financial statements for the detailed movements in the underwriting funds (page 201). Also see note 1d for details of the relevant accounting policy, explaining the fund basis of accounting (page 176).

Operating costs

- 2021-22: £66 million
- 2020-21: £49 million

A planned increase in staff in addition to project costs was largely responsible for the increase in operating costs. For more details, see the Staff and Remuneration report (page 143).

Long-term assets and liabilities

Direct lending loans at year end:

- 2021-22: £2,808 million
- 2020-21: £2,308 million

Gross recoverable claims at year end:

- 2021-22: £534 million
- 2020-21: £600 million

Given the nature of the business that UKEF supports, the department has a significant holding of long-term assets and liabilities. UKEF's major asset classes are direct lending loans and recoverable claims (both denominated in a range of currencies, predominantly US dollars).

The direct lending loan book continued to grow this year. Gross recoverable claims decreased owing to claims paid as a result of COVID-19; however, these were more than offset by recoveries in-year and abandoned recovery action in relation to Sudan.

UKEF's most significant liability relates to insurance reserving.

Financial results by accounts 1 to 6

UKEF currently operates 6 accounts (business segments).

Account 1 relates to guarantees and insurance issued for business before April 1991, and insurance issued by the Insurance Services Group of UKEF (which was privatised on 1 December 1991) for which UKEF retains all contingent liabilities.

Account 2 relates to the credit risk arising from guarantees and insurance issued for business since April 1991.

Account 3 relates to guarantees and loans issued for business since April 1991 on the written instruction of ministers, which UKEF's Accounting Officer had advised did not meet normal underwriting criteria.

Account 4 relates to the provision of Fixed Rate Export Finance (FREF) to banks (now closed to new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements.

Account 5 relates to the provision of direct lending (in the normal course of business) since 2014.

Account 6 relates to all business underwritten and booked under the Temporary COVID-19 Risk Framework (TCRF – approved by HM Treasury since 2 April 2020).

UKEF's Executive Committee at the All Staff Conference

Management commentary — 5-year summary

	2021-22 £m	2020-21 £m	2019-20 £m	2018-19 £m	2017-18 £m
Overall value of guarantees and insurance policies issued and effective:					
New business supported – net of reinsurance – account 2	5,458	3,818	3,499	3,372	1,865
New business supported – net of reinsurance – account 3	–	–	–	2,139	–
New business supported – net of reinsurance – account 6	1,395	6,826	–	–	–
Total new business supported – net of reinsurance	6,853	10,644	3,499	5,511	1,865
Amounts at risk – gross of reinsurance – accounts 2, 3, 6	34,393	28,834	21,838	21,538	16,988
Statement of comprehensive net income:					
Premium income net of reinsurance	441	330	177	332	103
Staff, other administration and operating costs	66	49	41	37	34
Foreign exchange gain/(loss)	45	-138	55	46	-65
Net operating income – total	324	-217	217	128	5
– Account 1	18	-4	57	35	9
– Account 2	157	-104	88	45	22
– Account 3	12	4	-1	0	0
– Account 4	0	0	0	1	2
– Account 5	59	-114	73	47	-28
– Account 6	78	1	0	0	0
Net operating income – foreign exchange – adjusted	279	-79	162	82	70
Statement of cash flows:					
Claims recoveries – total	92	70	71	69	76
– Account 1	30	31	38	39	34
– Account 2	62	39	33	30	42
Interest recoveries in the year – total	25	19	31	31	27
– Account 1	24	19	29	30	26
– Account 2	1	0	2	1	1
Claims paid – total	103	107	8	0	2
– Account 2	103	107	8	0	2
Net cash flow from operating activities – total	576	353	321	484	225
– Account 1	53	49	67	69	60
– Account 2	428	168	181	241	114
– Account 3	10	38	-11	95	–

	2021-22 £m	2020-21 £m	2019-20 £m	2018-19 £m	2017-18 £m
– Account 4	–	–	–	1	2
– Account 5	85	98	84	78	49
– Account 6	74	23	–	–	–
Statement of financial position:					
Recoverable claims before provisioning	534	600	591	647	701
– Account 1	240	350	402	433	463
– Account 2	294	250	189	214	238
Recoverable claims after provisioning	184	179	197	247	292
– Account 1	87	110	145	168	190
– Account 2	97	69	52	79	102
Interest on unrecovered claims after provisioning	87	98	118	106	116
– Account 1	87	98	117	105	115
– Account 2	0	0	1	1	1
Underwriting funds – net of reinsurance	1,434	1,283	958	896	629
– Account 2	1,318	1,182	873	811	629
– Account 3	85	85	85	85	–
– Account 6	31	16	–	–	–
Recoverable capital loans before provisioning	2,808	2,308	1,327	967	505
– Account 3	1,000	703	–	–	–
– Account 4	1	2	5	10	15
– Account 5	1,807	1,603	1,322	957	490

Account 1

The main activity related to this account is the administration and collection of the claims paid out against guarantees and insurance policies. All exposure on this account relates to historic claims paid out before 1991.

In accordance with standard accounting practice, UKEF provides prudently against the possible non-recovery of debts. Where the outlook for recovery improves or worsens, we reduce or increase the level of provision accordingly, releasing profit or loss to the statement of comprehensive net income.

An increase in net interest income, due to provision reductions and recoveries as well as foreign exchange movements, was responsible for the change in net operating income this year.

The reduction in gross claims this year was due to recoveries, but also to the debt cancellation for Sudan. See the Chief Risk Officer's report for further details.

Net operating income:

- 2021-22: £19 million
- 2020-21: loss of £4 million

Recoveries of claims paid:

- 2021-22: £30 million
- 2020-21: £31 million

Recoveries of interest on claims paid:

- 2021-22: £24 million
- 2020-21: £19 million

Balances for gross claims:

- 2021-22: £240 million
- 2020-21: £350 million

Balances for net claims:

- 2021-22: £87 million
- 2020-21: £110 million

Interest on net unrecovered claims:

- 2021-22: £87 million
- 2020-21: £98 million

(All results rounded to the nearest million)

Account 2

An increase in net premium income related to the EDG product, as well as provision releases and reversal of fund top ups, was largely responsible for the change in the net operating result (from an operating loss last year to an operating gain this year).

Total of guarantees and insurance policies (net of reinsurance) issued and effective during the year:

- 2021-22: £5,458 million
- 2020-21: £3,818 million

Net premium income:

- 2021-22: £343 million
- 2020-21: £304 million

Net operating income:

- 2021-22: £157 million
- 2020-21: loss of £104 million

Release from funds:

- 2021-22: £40 million
- 2020-21: £52 million

Claim recoveries:

- 2021-22: £62 million
- 2020-21: £39 million

Gross claims balances:

- 2021-22: £294 million
- 2020-21: £250 million

Net claims balances:

- 2021-22: £97 million
- 2020-21: £69 million

Account 3

There was no new business written during the year 2021-22.

The extant exposure relates to support provided for BAE Systems and MBDA UK, for the provision of military aircraft and related equipment to the State of Qatar. The direct lending facility loan in relation to this support was fully drawn during the year.

Account 4

The direct funding balance, which represents the funds originally loaned by HM Treasury to reduce the cost of FREF, continued to decrease during the year – to £1 million, from £2 million in 2020-21 – as regular instalments were made.

All remaining exposure on account 4 is expected to run off in 2022-23.

Net operating income:

- 2021-22: loss of £0.1 million
- 2020-21: loss of £0.03 million

Account 5

This account relates to direct lending activity issued in the ordinary course of business.

UKEF's direct lending capacity for the overall facility is £8 billion. There are 50 signed loans of which 44 are currently effective.

Only one new loan has been assessed as impaired to the year ending 31 March 2022 (3 loans in total are currently impaired). See note 1 to the financial statements (page 173) for details of the relevant accounting policy.

There was a net operating gain of £59 million in 2021-22, compared with a net operating loss of £114 million in 2020-21. Several factors contributed to this change, including a foreign exchange gain of £36 million, compared with a loss of £113 million in 2020-21 (as most of the loans originated were in US dollars). In addition, net investment return increased to £37 million compared with £9 million in 2020-21. This was largely due to an increase in interest income on the loan book.

New loans originated (not including facility increases):

- 2021-22: 6 (signed and effective)
- 2020-21: 9

Loan impairment on the portfolio:

- 2021-22: £38 million
- 2020-21: £31 million

Net operating income:

- 2021-22: £59 million
- 2020-21: loss of £114 million

Account 6

This account relates to UKEF's Temporary COVID-19 Risk Framework (TCRF). See the Chief Risk Officer's report for background on the TCRF.

There was a net operating gain of £78 million in 2021-22, compared with a net operating gain of £1 million in 2020-21. The change was largely the result of increased premium from the EDG product which is released to income over the life of the product.

Net operating gain:

- 2021-22: 78 million
- 2020-21: £1 million

Total of guarantees and insurance policies (net of reinsurance) issued and effective:

- 2021-22: £1,395 million
- 2020-21: £6,826 million

Net premium income:

- 2021-22: £99 million
- 2020-21: £25 million

Financial reporting changes

As outlined in note 1 to the financial statements (page 173), UKEF currently applies International Accounting Standard (IAS) 39: *Financial instruments – recognition and measurement*. Although this standard has been replaced by International Financial Reporting Standard (IFRS) 9: *Financial instruments*, the standard will be effective for UKEF at the same time when IFRS 17 becomes effective. This is because UKEF has utilised a temporary exemption from applying IFRS 9. The International Accounting Standards Board has decided to extend, to 2023, the temporary exemption for insurers to apply IFRS 9 so that both IFRS 9 and IFRS 17 can be applied simultaneously. In the public sector, IFRS 17 application has been delayed by two years until 2025-26; therefore UKEF, like other central government departments, will adopt this for an annual period beginning on 1 April 2025.

Where UKEF applies IAS 39, the 'incurred loss' model is in effect for impairments. This leads to different results than applying IFRS 9, which uses the forward-looking 'expected loss' model.

Budgeting framework

UKEF's expenditure is presented in both the Statement of Parliamentary Supply (page 153) and the financial statements (page 167).

The financial statements apply IFRS as adapted and interpreted by the Financial Reporting Manual (FReM), which is produced by HM Treasury.

The Statement of Parliamentary Supply (SoPS), on the other hand, reports the department's expenditure into different budgetary categories, each with its own control limits that Parliament has voted on.

The total amount a department spends is referred to as the Total Managed Expenditure (TME). This is split into:

- Departmental Expenditure Limits (DEL), which covers spending that is subject to limits set in the Spending Review. Departments may not exceed the limits that they have been set in this budgetary category
- Annually Managed Expenditure (AME), which covers spending that is demand-led or exceptionally volatile in a way that could not be controlled by the department

Both budgetary categories, DEL and AME, can be further split into resource and capital budgets. Resource budgets capture current expenditure while capital budgets capture new investment and financial transactions. The resource budgets further split into admin and programme budgets in the chart below.

UKEF's resource DEL admin budget is a token amount (£1,000), with the gross costs covered from the premium income the department receives. The resource DEL programme budget is nil.

The capital DEL programme budget, resource AME budget and capital AME programme budget are all relevant to UKEF activities and set through the supply estimates process.

Explanation of variances between estimate and outturn summary

Parliament sets a limit on the annual amount of resources and capital that UKEF can consume through the supply estimates process.

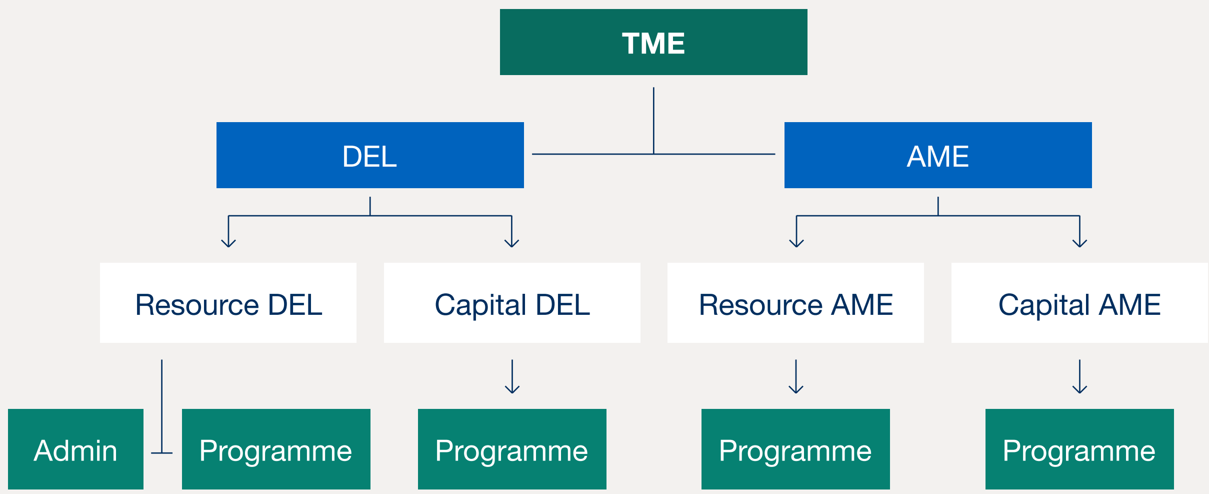
In the absence of any operating income outside the ambit of the supply estimate, UKEF's net resource outturn and net operating cost or income are identical.

UKEF supports export credit loans denominated in foreign currency and, as a result, is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Almost all of UKEF's premium income arises in currencies other than sterling (mostly US dollars) and net assets are denominated in a variety of currencies, of which the largest is US dollars. As UKEF is not authorised by HM Treasury to hedge exchange rate exposures, it faces challenges in ensuring compliance with Parliamentary voted control totals.

From January (the last opportunity to adjust voted control totals) to 31 March each year, there is a risk that exchange rates move and reduce net income by more than the headroom agreed with HM Treasury and voted by Parliament.

For further variance explanations, see the Statement of Outturn against Parliamentary Supply on page 153.

How department spend is categorised in the Statement of Parliamentary Supply



For more information about the supply estimate, see our website.[1]

UKEF's supply estimate vs actual outturn for the year 2021-22

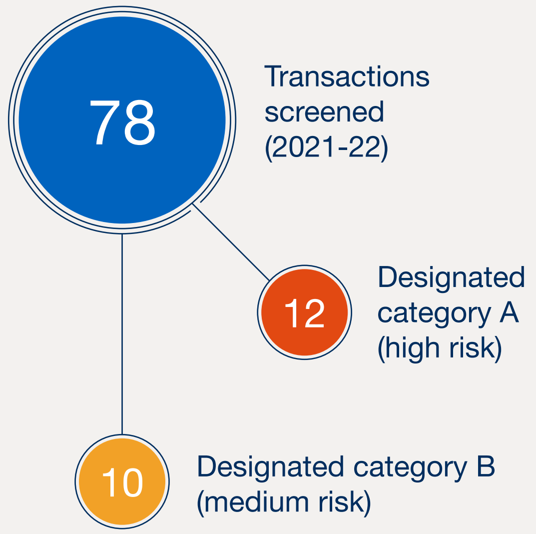
	SoPS note	Outturn £'000	Estimate £'000	Variance £'000
Resource budget spending				
Departmental Expenditure Limit (DEL)	SoPS1.1	–	1	1
Annually Managed Expenditure (AME)	SoPS1.1	(323,965)	648,384	972,349
Resource total & net operating cost/ (income)		**(323,965)**	**648,385**	**972,350**
Non-budget/resource total	SoPS1.1	–	–	–
Net resource outturn & net operating cost/ (income)		**(323,965)**	**648,385**	**972,350**
Capital budget spending				
Departmental Expenditure Limit (DEL)	SOPS1.2	1,413	1,600	187
Annually Managed Expenditure (AME)	SOPS1.2	457,131	1,601,142	1,144,011
Capital total payments/(receipts)		**458,544**	**1,602,742**	**1,144,198**

Notes

1 UKEF [gov.uk/uk-export-finance]

Head of Environmental and Social Risk Management's report

Max Griffin
Head of Environmental and Social Risk Management



UKEF examines the environmental, social and human rights (ESHR) risks and potential impacts of cases it is asked to support and monitors ESHR performance in line with its published ESHR Policy.[1] In addition, we collaborate with other financial institutions and export credit agencies (ECAs) regarding ESHR matters, to establish a level playing field and to promote and share good international industry practice across the finance sector.

UKEF's Environmental and Social (E&S) Division screens transactions to identify potential risks and impacts and to determine their classification under the scope of the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (2016 Revised) (the OECD Common Approaches) and/or the Equator Principles (2020).

During the 2021-22 reporting year, the E&S Division screened 78 transactions – an increase of 11.4% on the previous year.

Where we identify significant project-related ESHR risks as part of the screening process, we designate the transaction as either category A (high risk) or category B (medium risk). In 2021-22, we designated 12 category A and 10 category B projects.

We then carry out an ESHR review of these category A and B transactions and, where needed, put in place measures to ensure the projects become aligned to international ESHR standards. After providing support, we monitor these transactions to ensure that they remain aligned to the standards.

We typically take the International Financial Corporation's (IFC) Performance Standards on Environmental and Social Sustainability as our benchmark ESHR standards. They cover the following 8 topics.

Source: IFC Performance Standards[2]

These project-related standards are intended to represent good international industry practice. They are achievable anywhere in the world, using existing technology and at a reasonable cost, when the parties involved demonstrate appropriate levels of commitment, capacity and capability.

In carrying out ESHR reviews, we emphasise early dialogue with exporters and other relevant parties to the transactions. The aim is to make sure that projects made possible by UK exports align with the applicable international ESHR standards, both before we provide our support and throughout the duration of that support.

To achieve this, we work with the relevant parties (project sponsors and UK exporters, for example) to:

- establish and clarify which areas of ESHR management may need improving to meet international standards
- help implement robust management systems that mitigate negative impacts and enable positive impacts

In reviewing ESHR matters, UKEF relies on:

- publicly available information
- information supplied directly by the project or relevant corporate entity
- industry and sector initiatives (for example regarding climate risks)
- dialogue with the ESHR and corporate teams at the project and/or exporter

UKEF assesses and documents these risks and our association with these matters in existing ESHR documentation (including screenings and reports for category A and B cases) and, where relevant, dedicated climate change reports.

Over the reporting period, the E&S Division also completed 56 screenings or assessments on cases other than category A or B projects. These included Export Development Guarantees, civil aviation and short-term transactions. Each of these cases involved senior business group and Head of Climate Change review and approval before deciding whether to provide financial support.

As well as reducing negative ESHR and climate change impacts, the E&S Division considers the ESHR benefits inherent to many of the proposed projects we review and monitor. Examples of these benefits include:

- generating and supplying electricity via renewable sources

- enhanced health and wellbeing in host communities where we have supported hospitals and health centres
- improved availability of clean water and sanitation from the development of water supply and treatment projects
- provision of jobs, training and project-related economic growth during a project's construction and operation

By ensuring the implementation of our benchmark ESHR standards, these developmental benefits may be enhanced beyond the level provided without UKEF's support.

Due diligence

Our ESHR and climate change due diligence and monitoring are carried out by UKEF's professionally qualified and experienced E&S Division, supported by counterparts in co-financing institutions and external E&S consultants, where appropriate.

In 2021-22, UKEF worked with a wide variety of project developers and exporters to help them understand and effectively manage the ESHR risks associated with their activities.

For details of the ESHR risk and impact categorisation of all cases which required a review under our ESHR policy, and for which we issued support during 2021-22, see our website.[3]

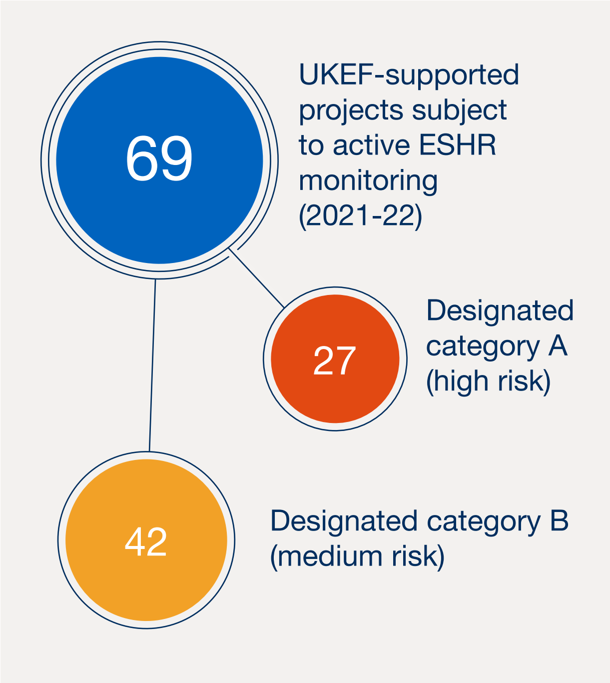
For an example of our work in action, see Our support for exports on page 38.

Modern Slavery

The UK is committed to working with international partners and businesses to tackle modern slavery in global supply chains. UKEF is especially vigilant in its due diligence processes to ensure that the deals it supports include protections for the rights of workers.

We published our first-ever modern slavery statement in November 2021 where we outline our approach to tackling our exposure to modern slavery across the business.[4]

Monitoring



UKEF conducts ongoing ESHR monitoring of all category A and B projects where support has been issued. This allows us to track the implementation of ESHR commitments and be satisfied that the projects continue to align with the relevant international standards for the duration of our support, including during construction, operations and potentially decommissioning.

Our monitoring commonly includes:

- reviewing self-monitoring reports produced by project developers
- following up on reported ESHR incidents
- commissioning independent environmental and social consultants to monitor projects on our behalf
- carrying out site visits

The level and frequency of our monitoring vary relative to the ESHR risks involved.

One of UKEF's largest loans in West Africa will help NMS Infrastructure build 6 new hospitals in Côte d'Ivoire

UKEF seeks to positively influence the application of standards throughout the monitoring process, to improve and attain positive tangible ESHR outcomes. Examples of this include influencing the project developer to:

- promote positive health and safety behaviours, minimising accidents, injury and loss of life
- re-establish the livelihoods of people adversely affected by the project
- provide appropriate worker conditions and accommodation
- maximise energy efficiency and minimise CO_2 and related air emissions
- promote positive project impacts

The travel restrictions resulting from the COVID-19 pandemic limited physical site visits during the first part of the 2021-22 reporting year. We used remote ESHR monitoring methods and applied good practice, including the Equator Principles guidance on the topic. This guidance also includes suggested good practice actions for implementation by project sponsors and other lenders.[5]

For a summary of cases where we are carrying out ongoing ESHR post-issue monitoring, see our website.[6]

International cooperation

In support of UKEF's objective to establish a level playing field for all OECD exporters, we work alongside other ECAs at the Environmental and Social Practitioners' Group of the OECD Export Credit Group. We are actively involved in setting the agenda, sharing experiences, participating in working groups and seeking to achieve consistency in ECAs' approaches to ESHR risk management practices under the OECD Common Approaches.

In October 2021, the Equator Principles Financial Institutions (EPFIs) re-elected UKEF to a management support role on the Equator Principles Steering Committee (EPSC). This is our third term on the EPSC, after sitting twice between 2018 and 2020.

The E&S Division was actively engaged this year in managing an Equator Principles initiative to develop standard terms of reference for consultants to use when conducting Environment and Social Due Diligence (ESDD) and Environment and Social Impact Assessment projects. The aim is to promote best practice and a consistent approach across EPFIs.

ESHR Policy review

UKEF is committed to continuously reviewing its policies and procedures to take account of the rapid evolution of best practices, including the application of ESHR due diligence and monitoring.

Our review of our ESHR Policy continued during 2021-22. The updated policy will be influenced by the government's Fossil Fuel Policy, UKEF's Climate Change Strategy and developments on human rights/supply chain issues within the renewable sector. This follows the Foreign Secretary's announcement of a series of measures to help ensure UK businesses and the public sector are not complicit in human rights violations in regions of concern.

In 2021, various climate-related internal procedures were developed and implemented across all our products. These procedures are proportionate to the risks and impacts associated with the projects and our support. They may be applied both to projects that receive UK exports and to the performance of the UK exporter within its sector.

This year has also highlighted the issue of potential forced labour in the renewable energy sector, specifically in solar-grade polysilicon production within the solar power supply chain. As a result, the E&S Division collaborated with UKEF's policy teams to provide recommendations for strengthening UKEF's screening and ESDD processes on transactions related to the solar power industry. These proposed changes were accepted and implemented on all relevant transactions. The process will be further developed to consider non-solar projects.

Megger Group received a UKEF £138 million loan guarantee to help it grow and invest in green technologies

Supporting the UN Sustainable Development Goals

This year, UKEF has taken significant steps forward with our strategy of Focussed Alignment with the UN Sustainable Development Goals (SDGs).[7]

Under the Focussed Alignment strategy, UKEF proactively identifies projects and supply chains with positive SDG-related impacts that we could support. Our approach is focussed on:

- changing behaviour
- collecting and measuring data
- communications

As of this year, sustainability is an explicit part of UKEF's mission statement. Even before this, however, much of our support has, by its nature, been aligned with some of the SDGs in some of the contexts where we work.

For example, much of our activity naturally contributes towards SDG 8, Decent work and economic growth, in many of the markets where we operate.

Through our Focussed Alignment strategy, we are taking steps to better understand and, where possible, increase this impact.

Progress this year has included:

- changing behaviour: new products contribute towards SDG 13, Climate action, in many of our markets, as does targeting our origination efforts at clean growth
- collecting and measuring data: origination teams can now identify whether a transaction may have a positive impact on a specific SDG – and whether the transaction could be eligible for UKEF's Clean Growth Direct Lending product
- communications: IEFEs build awareness of UKEF support in their host countries and identify opportunities to contribute positively to the SDGs

In July 2021, we joined a six-month pilot trial to deepen collaboration between the Foreign, Commonwealth and Development Office, the Department for International Trade, British International Investment and UKEF in specific countries. Going forward, we will continue working in partnership with others to support delivery of the government's international development objectives.

We will also continue developing and implementing our Focussed Alignment approach, including by:

- engaging with host countries to better understand their SDG priorities
- building our understanding of, and ability to capture, the potential SDG impact of transactions throughout their lifecycle – for example, by looking at targets and indicators as appropriate
- enhancing how we communicate our impact on the SDGs

Notes

1 UKEF. Policy and practice on Environmental, Social and Human Rights due diligence and monitoring. November 2020 [gov.uk/government/publications/uk-export-finance-environmental-social-and-human-rights-policy/policy-and-practice-on-environmental-social-and-human-rights-due-diligence-and-monitoring]
2 International Finance Corporation. Performance standards. 2012 [ifc.org/performancestandards]
3 UKEF. Environmental, social and human rights risk and impact categorisations, 2021 to 2022. July 2022. [gov.uk/government/publications/eshr-risk-and-impact-categorisations-2021-to-2022]
4 UKEF. Modern slavery statement 2021 to 2021. November 2021 [gov.uk/government/publications/uk-export-finance-modern-slavery-statement-2020-to-2021/uk-export-finance-modern-slavery-statement-2020-to-2021]
5 Equator Principles. Guidance note on implementation of the Equator Principles during the COVID-19 pandemic. June 2020 [equator-principles.com/app/uploads/Implement_EPs_during_Covid-19.pdf]
6 UKEF. Environmental, social and human rights risk and impact categorisations, 2021 to 2022. July 2022. [gov.uk/government/publications/eshr-risk-and-impact-categorisations-2021-to-2022]
7 United Nations. Do you know all 17 SDGs? April 2018 [sdgs.un.org/goals]

David Priestley who is Head of Export Finance Managers and Business Group Operations

Selected SDG impact

11 SUSTAINABLE CITIES AND COMMUNITIES

£1,095 million

TRANSPORT

Construction of a 503km electric-powered high-speed railway from Ankara to Izmir, Türkiye

A lower-carbon alternative to air and road routes

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

£125 million

TRANSPORT

Widening of the Douala East Entrance Road from Yaounde to vital ports, Cameroon

Supporting jobs

Boosting trade with neighbouring countries

3 GOOD HEALTH AND WELL-BEING

£130 million

HEALTHCARE

Engineering, procurement and construction of 6 new hospitals, Côte d'Ivoire

Combined catchment of more than 1 million people

7 AFFORDABLE AND CLEAN ENERGY

£261 million

CLEAN ENERGY

1.35GW Karapinar solar project, Türkiye

Capable of providing up to 20% of the country's energy production

8 DECENT WORK AND ECONOMIC GROWTH

£133 million

BUILT ENVIRONMENT

Construction of Kumasi Market, Ghana

Improving environmental and health and safety measures

Largest market in West Africa

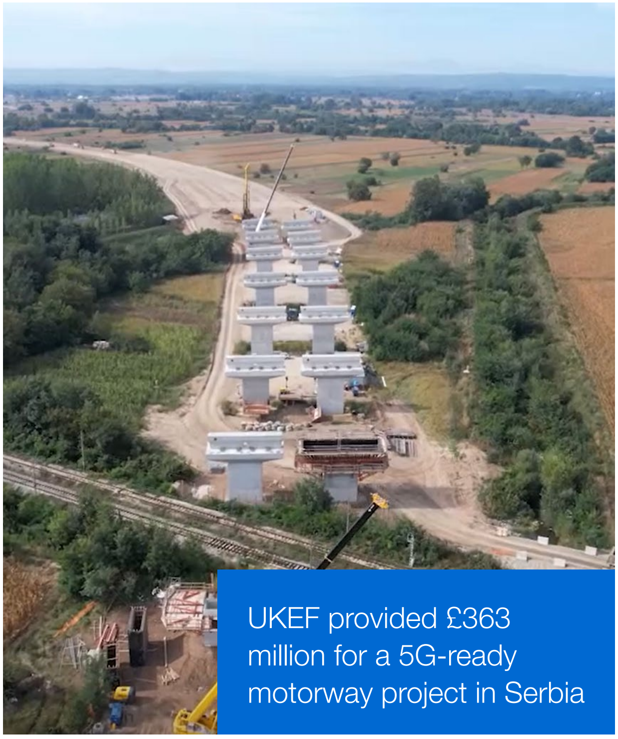
Notes: All figures are net of reinsurance and represent UKEF's maximum liability as of 31 March 2022. As such, some figures may differ from those stated in public announcements.

Task Force on Climate-related Financial Disclosures

In July 2019, UKEF committed to making financial disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), as soon as practicable following the close of the 2020-21 financial year. In June 2021, UKEF was the first UK government department to make a TCFD-aligned disclosure, and we are among a small number of export credit agencies (ECAs) reporting in line with the framework.

Head of Climate Change and Sustainability

This is our second disclosure, setting out how we embed consideration of climate change into our business. We have made significant progress this year: our report highlights both our key achievements so far and where we are taking action to further develop our approach. This year we have also integrated disclosure of our approach to climate change throughout the Annual Report and Accounts, reflecting our embedding of climate change consideration throughout the business.



UKEF provided £363 million for a 5G-ready motorway project in Serbia

Embedding consideration of climate change in our current business planning cycle, 2020-24

Key progress this reporting year	Next steps this business planning cycle
Governance	
Integrated climate change into UKEF's governance structure Created a new Climate Change & Sustainability function to drive organisational transformation	Continue work on UKEF's TCFD project and move into business-as-usual implementation of climate change objectives
Strategy	
Developed and published UKEF's Climate Change Strategy	Continue to implement the Climate Change Strategy and integrate climate change objectives into business planning
Risk management	
Built our approach to understanding and mitigating climate-related risk through our transaction and portfolio-level policies and processes Started to quantify risk through climate-driven scenario analysis, starting with sovereign exposures	Continue to enhance our policies, processes and data sources and further develop our approach to quantifying risk Further develop our approach to using scenario analysis to identify and manage risk and assess the resilience of our strategy
Metrics and targets	
Made initial estimates of our financed emissions and began developing a cutting-edge approach to attribution of emissions for guarantees Established a set of sectoral interim decarbonisation targets on our pathway to net zero	Improve the data quality of our emissions estimates Begin bringing all emissions in-scope of targets over time, starting with the aviation sector Engage with peers to help the financial industry coalesce around appropriate methodologies for attributing emissions Develop risk metrics and consider additional management information on climate change

Governance

UKEF's governance around climate-related risks and opportunities

Chief Executive Officer & Accounting Officer

Responsible for the management of UKEF, including embedding consideration of climate change into our business

↑

Executive Committee (EC)

The Director of Strategy, Policy and Climate Change (SPoCC) is the EC member responsible for the department's overall approach to climate change and sustainability, among other matters

Change Board

Authorised a TCFD Project to support further development of UKEF's infrastructure, systems and processes related to climate change

TCFD Project Board

Supports the Senior Responsible Owner in delivery of the TCFD Project

↑

Enterprise Risk and Credit Committee (ERiCC)

Advises the CEO on the effective management of UKEF's enterprise and credit risk, including the potential financial impact of climate-related risks

↑

UKEF Board

Supports the Accounting Officer in the management of UKEF, including through advice and challenge on its approach to climate change

↑

Risk Committee

Advises on the adequacy of the strategic processes and framework for risk management, and on the design and operating effectiveness of the risk management framework, including on climate change

↑

Audit Committee

Provides oversight regarding financial accounting and reporting, including on the approach to TCFD reporting

↑

Export Guarantees Advisory Council (EGAC)

Advises the Secretary of State for International Trade and UKEF's CEO on the ethical policies that UKEF applies when doing business, including those related to climate change

UKEF embeds consideration of climate change across our business, and climate is integrated as a key issue within our governance structure. This reporting year, management has placed significant focus on climate change, as we developed our Climate Change Strategy and moved into implementing it. We have reviewed current governance arrangements to make sure they are fit for purpose for the management of climate change issues and established new structures where needed.

The **Executive Committee (EC)** supports UKEF's CEO and Accounting Officer in the management of UKEF. The EC received and discussed 17 submissions related to climate change during the reporting year. A major area of engagement with the EC has been steering work to develop our first ever portfolio-wide financed emissions estimate and to set 2030 decarbonisation targets. The EC has also overseen the development of policies and processes to enable the department to take climate change into account, as appropriate and proportionate, in our business activities.

The Director of Strategy, Policy and Climate Change (SPoCC) is the EC member responsible for the department's overall approach to climate change. SPoCC was created as a new directorate in the financial year 2020-21 to support a greater focus on UKEF's approach to climate change and to ensure representation of climate change in all matters considered by the EC.

This year, we established a new Climate Change and Sustainability team as part of the Environmental, Social, Climate Change and Sustainability Division (ESCCSD) within SPoCC. The ESCCSD brings together responsibility for the department's strategy, policy and transaction-based work on climate change and other thematic issues related to our impact. The team works with stakeholders across the department to integrate consideration of climate change across the business lifecycle.

Climate change is a material issue across EC members' functions and other EC members are also responsible for integrating climate change into their areas of accountability. The Chief Risk Officer reports to the CEO and is responsible for integrating climate change into the department's risk management processes (see the Chief Risk Officer's report on page 45).

Other management committees also support the management of climate change within their areas of responsibility. The **Change Board** has authorised a TCFD Project, through which we are delivering many of the enhancements to how we approach climate change. The TCFD Project's Senior Responsible Owner (SRO) is the Head of Climate Change and Sustainability, who reports to the Change Board on the project's progress biannually. Lawrence Weiss is the Board's nominated non-executive director on the **TCFD Project Board**.

First Subsea Ltd secured major offshore wind contracts with financial backing from UKEF

The **Enterprise Risk and Credit Committee** (ERiCC), which is chaired by UKEF's Chief Risk Officer, also considers the financial impact of environmental, social and governance (ESG) risks, including climate-related risks, in its advice to the CEO on the effective management of UKEF's enterprise and credit risk.

In this reporting year, the **UKEF Board** and its committees considered climate change-related issues 6 times. The Board's feedback and challenge were important in developing UKEF's Climate Change Strategy and its ongoing oversight of our TCFD Project is a key accountability mechanism.

The **Audit Committee** supports the UKEF Board in its supervision of our TCFD Project, specifically on elements relating to reporting. The **Risk Committee** advises on the implementation of TCFD from a risk management perspective. There is currently no mandatory training programme in place for the Board, but Board members are taking up training and upskilling opportunities to further build their knowledge and support effective oversight on climate change.

The **Export Guarantees Advisory Council** (EGAC) advises the Secretary of State for International Trade and UKEF's CEO on the department's approach to climate change, alongside other environmental, social and ethical issues. The EGAC contributed to the development of our Climate Change Strategy and has advised on our implementation of the TCFD Project. Alistair Clark, Chair of the EGAC, is also the UKEF Board's nominated representative for climate change considerations (see page 114).

Risk governance

Climate change is one of UKEF's top strategic risks. This recognises that our response to climate change can result in significant financial, legal and reputational consequences that can affect our social license to operate and the fulfilment of our financial obligations. We are taking actions to identify, understand, mitigate and manage climate change risks in line with our risk appetite and through the strategic risk management framework.

Climate change is also one of our primary enterprise risk categories, articulated within the enterprise risk framework as set out in the Chief Risk Officer's report. Portfolio-level monitoring, which includes climate-related stress testing and scenario analysis, is presented biannually to ERiCC and the UKEF Board's Risk Committee. Enterprise risk reports, which include monitoring of climate change as a primary risk, are presented to ERiCC quarterly; these reports include an enterprise risk dashboard, a risk governance report, a summary of assurance testing performed and an operational risk report. ERiCC is also the committee responsible for the integration of climate change and wider ESG issues into credit risk assessments.

Next steps

- Consider providing further training on climate change at management and Board level
- Continue integrating climate change into our governance structure to provide ongoing assurance and oversight
- Continue delivery of UKEF's TCFD Project and move into business-as-usual delivery

Strategy

The actual and potential impacts of climate-related risks and opportunities on our business, strategy and financial planning

UKEF has recently modified its mission statement to include a commitment to undertake our business sustainably (see page 16). Our mission shapes everything we do, including our approach to and understanding of climate-related risks and opportunities.

As the UK's ECA, UKEF is well-positioned to support the government's climate change objectives at home and overseas. UKEF's support realises economic opportunities for the UK and can support our international partners in their own low-carbon transitions. UKEF's Climate Change Strategy,[1] published in September 2021, lays out our ambitious plans to support UK exporters and suppliers through the global transition to net zero and embed consideration of climate change into our business.

Opportunities

Our Climate Change Strategy provides a framework for identifying and assessing the range of climate-related opportunities that UKEF faces over the short term (up to 2 years), medium term (2 to 10 years) and long term (beyond 10 years). We identify climate-related opportunities under 3 of the strategy's 5 strategic pillars.

UKEF Climate Change Strategic pillar	Increasing our support for clean growth and climate adaptation	Reducing our portfolio greenhouse gas emissions	Providing international leadership on climate change among ECAs and relevant financial institutions
Opportunity	Support UK supply chain capability and deliver prosperity by financing sectors which will be key to the global transition	Support the government's climate change objectives by reducing the contribution of UKEF-financed activities to climate change – domestically and internationally	Level the playing field among ECAs and relevant financial institutions at a high standard
Time horizon	Short term +	Medium term +	Medium term +
UKEF response	Develop our product set to boost clean growth and transition-related exports Orient our IEFEs' origination activity towards clean growth, by continuing to implement a target for 50% of filtered[2] origination pipeline in clean growth and climate adaptation Collaborate across government to realise the export potential from current and emerging net zero technologies	Engage with our customers to reduce emissions in the projects we support, including requiring that the best available technology is used where appropriate and that lower carbon alternatives are considered Build our understanding of our portfolio emissions and set targets to reduce these	Engage with our peers to embed good practice transactional standards on climate change Build alliances to shape the architecture of incentives for ambitious climate action, including leading efforts to reform OECD Sector Understandings on Climate Change
Progress so far	Developed our product suite, including enhancing the Export Development Guarantee (EDG) and launching the Transition EDG	Developed UKEF's first ever portfolio-wide financed emissions estimate Set ambitious 2030 decarbonisation targets on our way to net zero by 2050	Supported delivery of the COP26 Statement on International Public Support for the Clean Energy Transition

Alongside these opportunities, we are also exposed to climate risk. We are committed to understanding and mitigating our climate-related financial risks (the third pillar of our Climate Change Strategy). We also recognise the importance of transparency and robust disclosure against these opportunities and risks (the fourth pillar). Our TCFD report is the foundation of our transparency on our approach.

Risks

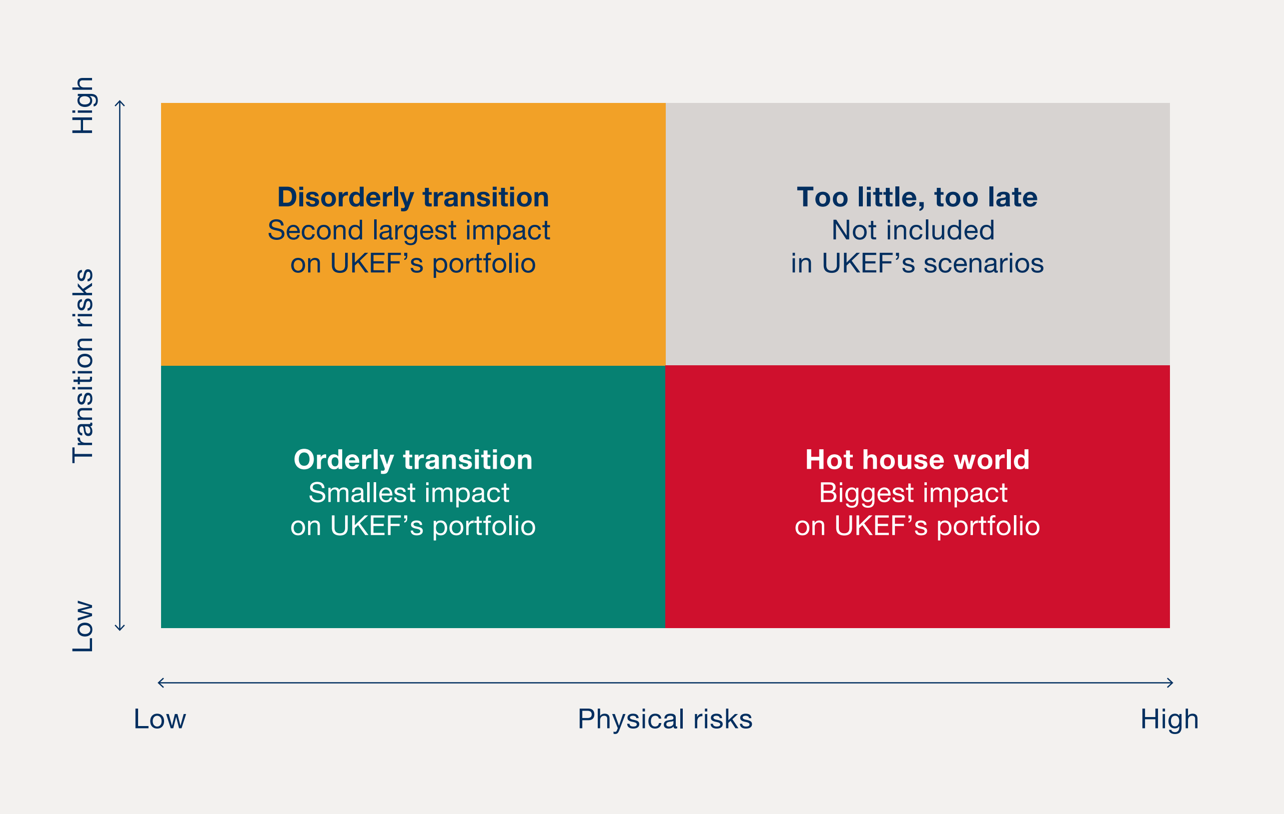
UKEF is exposed to both financial and non-financial risks at a strategic level. We recognise that non-financial risks (such as operational and reputational risks) can also have financial impacts, affecting our ability and license to operate effectively.

Our exposure to strategic-level climate-related financial risk is determined by the composition of our portfolio and exogenous factors, including the speed and orderliness with which the net zero transition is realised globally. Relevant factors include the industries and sectors we support, the locations of the end buyers and projects, the product types used and the time horizons of exposure.

At the strategic level, we understand our exposure to climate-related financial risk primarily by using our in-house portfolio modelling tool to analyse different climate-related scenarios and their effects on our portfolio. This helps us understand the resilience of our strategy under potential future states.

We currently run three climate-driven stress tests on our portfolio as part of a wider suite. This year we enhanced our climate-related scenarios consistent with those of the Network for Greening the Financial System (NGFS), including a hot house world scenario, a disorderly transition scenario and (for the first time) an orderly transition scenario.

The broad result of our climate-related portfolio stress testing is stress on our capital ratios under each scenario, with the hot house world scenario by some way the highest-impact. The results of our stress testing are reported to ERiCC and to HM Treasury as part of our risk management process.



Scenarios based on the NGFS Climate Scenarios[3]

- **Hot house world:** a scenario whereby global efforts to halt climate change are insufficient, which limits transition risk but causes severe physical risk over time
- **Disorderly transition:** a future whereby global efforts to halt climate change are delayed and inconsistent, which initially minimises transition risk only for it to accelerate once high physical risk crystallises
- **Orderly transition:** assumes global measures are introduced in a timely fashion, thereby limiting both physical and transition risk

We are actively working on enhancing these stress tests to align with evolving practices in climate risk management. Our primary focus is on developing methods to simulate climate impacts at a range of future dates rather than modelling an immediate shock. This will allow us to stress our portfolios more accurately in line with different future transition pathways. Our approach to enhancing our work in this area will be to concentrate on our sovereign exposures first. Our approach will be aligned with the NGFS and the Bank of England Climate Biennial Exploratory Scenario scenarios where appropriate; we will develop a UKEF-appropriate approach, based on the unique characteristics of our portfolio.

For more detail on our climate-related stress testing, see the Chief Risk Officer's report on page 58.

Next steps

- Continue to embed and implement our Climate Change Strategy
- Integrate climate change into our strategic planning for the next business plan
- Continue working to apply climate-related scenarios to stress-testing and analysis of financial exposures and incorporate these into portfolio risk management processes and reporting; continue to enhance our approach to doing this over time as data and methodologies allow

Risk management

How we identify, assess, mitigate and manage climate-related risks

Over recent years, we have broadened and deepened our approach to risk management at a transaction level to understand and respond to the financial and non-financial risk that climate change poses to the global economy, our transactions, our portfolio and ultimately the UK taxpayer.

Sources of climate-related credit risk

- **Physical:** impacts on buyers and projects directly resulting from acute shocks and chronic stressors that climate change causes
- **Transition:** impacts on buyers and projects resulting from policy, legal, market and technological shifts associated with a transition to a low-carbon economy

Both physical and transition-related risks are important risk drivers for UKEF, both at transaction level and in aggregate at portfolio level. Approaches to quantifying these risk drivers are still in the relatively early stages of development. We are engaging closely with peers and external partners on developing approaches to climate-related risk quantification; and building our understanding of climate-related risks over time.

Financial risk

Climate change poses direct financial risks to UKEF and its customers through its effect on insurance underwriting, credit, financial, market and operational risks.

As an ECA, UKEF's portfolio has some differences to many of our banking peers'. Our exposure is heavily weighted towards guarantees and insurance; and our counterparties include a large proportion of sovereign emerging market customers. Methodologies for assessing climate-related financial risk for these customers and product types are still largely in initial development across the financial industry. We are working towards better quantifying our climate-related financial risk exposure as developing methodologies and data allow, and we will continue engaging with financial sector peers to support this.

Our Climate Change Strategy sets out the ways we are building our understanding and approach to managing these climate-related financial risks, including:

- appropriately and proportionately taking account of climate-related risk across our credit risk assessments for all our products
- looking at new data sources and research as they become available and more standardised, with the aim of making our analysis of climate change risk more quantitative
- applying relevant and appropriate climate-related scenarios to stress-testing and scenario analysis of financial exposures and incorporating these into portfolio risk management processes and reporting
- updating our approach to assessing the financial implications of climate change, keeping up to date with industry best practice

Our progress on these commitments this reporting year includes having:

- further developed our policies and processes to reflect climate-related financial considerations in all risk management activities
- enhanced credit assessment processes for identifying, understanding and managing risks
- carried out portfolio-level stress-testing driven by climate-related scenarios
- recruited subject matter experts to bolster our capabilities in this area
- defined climate-related training requirements and initiated related training activities

Our approach to identifying and assessing transaction-level climate-related financial risk is based around the relevant counterparty.

For corporates and financial institutions, this reporting year we developed a new non-sovereign ESG and climate-related assessment framework and integrated climate-related considerations into credit risk analysis for all medium and long-term business. Our approach considers the risk categories recommended by TCFD, risk-mitigating capacities of climate change resilience and adaptation, and the potential financial implications.

For sovereign counterparties, all recent sovereign risk reviews include an explicit assessment of the potential impact of ESG and climate-related risk. In line with market practice, our approach continues to develop as we draw on a wider range of information and data sources and ESG-related analytics as they become available.

For more detail on our integration of climate-related financial risks in credit risk assessments, see the Chief Risk Officer's report on page 57.

Non-financial risk

Climate change is also a source of non-financial risk and impact, both on UKEF directly and the transactions it supports. At a transaction level, we mitigate these risks and impacts primarily through our environmental, social and human rights (ESHR) policy and practices, which have evolved over recent years to strengthen our approach to climate change.

Over the reporting period, we have documented climate change considerations in screening summaries, ESHR reports and dedicated climate change papers or reports, as appropriate and proportionate to the climate change risk and impact, and to our support. For more detail on our consideration of climate change risks and impacts in transactions, see the Head of Environmental and Social Risk Management's report on page 89.

We recognise that other environmental and social issues can have strong interdependencies

Identifying, assessing and managing climate-related risks and impacts

1. All transactions screened for climate change risk and impact either at product level, through delegated financial institutions or directly by the E&S team
2. Where relevant, the E&S team determines whether further assessment is required and to what extent
3. If further assessment is required, the E&S team assesses the relevant aspects of a project, supply or company which may add to global emissions and/or may be affected by physical or transition risk
4. Recommendations may be provided to reduce climate-related risks and impacts
5. Assessment internally assured and signed off, with additional external assurance or input where appropriate
6. Assessment submitted to ERiCC where appropriate, and considered by the decision maker alongside all other relevant factors

with climate change. For example, there is a critical social dimension to the global economic transition. When considering support, we view these factors primarily through the lens of international good practice on social and human rights practices, but we also recognise a significant link with climate change. Similarly, biodiversity and other environmental issues are managed primarily through our transaction-level ESHR framework at present.

We noted with interest the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) framework this year and look forward to its development. We will continue to engage with peers and stakeholders to integrate emerging good practice into our processes as appropriate.

Next steps

- Further develop our E&S and credit assessment processes to support incorporating climate change risks and impacts in decisions about providing support
- Continue to enhance our policies, processes and data sources as they evolve in line with industry best practice
- Continue to engage with prospective customers to understand their resilience to climate-related risks and strategies for mitigating these risks
- Consider our approach to related social and environmental issues

Metrics and targets

What we use to identify, assess and manage relevant climate-related risks and opportunities

Understanding the emissions associated with our portfolio is key to UKEF's strategic commitment to reaching net zero by 2050. This year we have made significant progress in that objective – producing our first ever estimate of financed emissions across the full portfolio and setting industry-leading targets to reduce financed emissions in the oil and gas and power sectors.

Key metrics and targets

Financed emissions on the basis of amount at risk (AAR)

15.7 megatonnes of carbon dioxide equivalent ($MtCO_2e$)

Financed emissions on the basis of expected loss

3.8 $MtCO_2e$

Financed emissions reduction target: oil and gas sector exposure

-75% tCO_2e by 2030

Financed emissions reduction target: power sector exposure

-58% tCO_2e/£AAR by 2030

Financed emissions covered by 2030 targets

40%

Weighted PCAF data quality score for financed emissions

4

Clean growth target for our filtered origination pipeline

50%

Scope 1	Direct emissions from our own or controlled sources
Scope 2	Indirect emissions from the generation of energy we purchase
Scope 3	Indirect emissions (excluding Scope 2) from our value chain, including both upstream and downstream

UKEF is committed to achieving net zero operational and portfolio greenhouse gas emissions by 2050. Tracking our progress towards this goal is an important way for us to understand our management of climate-related risks and opportunities.

UKEF's operational emissions stem largely from our office footprint and emissions associated with business travel (see page 236).

As a financial institution, the emissions associated with the transactions we support through our lending, guarantees and insurance products (collectively referred to as our portfolio or financed emissions) are by far the more material. These portfolio emissions (which form the largest component of UKEF's Scope 3 emissions) represent our customers' Scope 1 and 2 emissions, and their Scope 3 emissions where relevant and where data allows, in line with the applicable methodology.

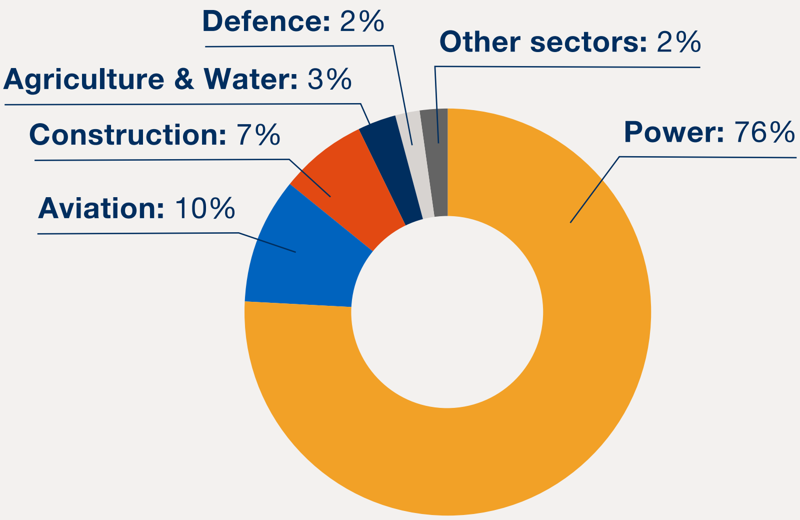
Portfolio emissions

UKEF requires all high-emitting[4] projects (those with estimated operational CO_2e emissions greater than 25,000 tonnes a year) which fall under the requirements of the OECD Common Approaches to estimate their Scope 1 and Scope 2 operational emissions before we provide support. For transactions in our portfolio outside of this requirement, there has not historically been a requirement to estimate associated emissions. This means that we have a significant historical data gap in understanding the emissions associated with our portfolio.

To address this gap, we have worked with external advisors this year to produce our first portfolio-wide emissions estimate. We have used an approach based on the Partnership for Carbon Accounting Financials (PCAF) Global Greenhouse Gas Accounting and Reporting Standard for the Financial Industry.[5]

The approach we followed has involved using environmentally-extended input–output modelling to derive sectoral emissions-factor based estimates for all transactions currently in our portfolio (the 'top-down' approach), supplemented with more granular transaction-specific estimates where these are available (the 'bottom-up' approach).

Sectoral distribution of UKEF's financed emissions as at January 2022 – attribution by expected loss (3.8 $MtCO_2e$)



Attribution of emissions from guarantees and insurance

The PCAF Standard provides methodologies for accounting for financed emissions by financial product class. It is based on the principle that financed emissions are a function of the supported entity or project's emissions and an attribution factor based on the relationship between the outstanding amount loaned and the entity or project's total value. Each transactional estimate therefore represents the proportion of the entity or project to which UKEF is a financing party, at a point in time.

However, two key financial classes for UKEF – insurance and guarantees – are currently undeveloped in the PCAF Standard.

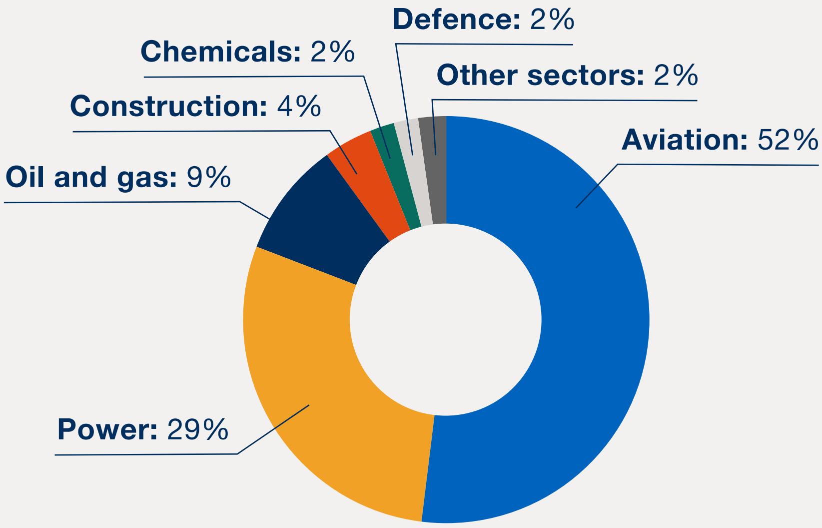
As an ECA with a portfolio materially weighted towards guarantees, we do not consider it appropriate to only attribute emissions from our guarantees when the guarantee is called, as set out in the PCAF Standard. Instead, we have developed an approach to attributing emissions from guarantees based on their expected loss.

We believe that this approach to understanding our portfolio emissions is more consistent with the economic role that a guarantee plays in a transaction and with our approach to understanding and managing the risk associated with our guarantee and insurance portfolio. Because it is a risk-based approach, the resulting estimates are strongly affected by changes in the risk profile and financial performance of a given transaction, so year-on-year changes in the estimate will be due to factors additional to changes in emissions. Fundamentally, this approach supports the reduction of double counting of emissions between financiers, which in aggregate should support a more accurate global picture of financed emissions.

This is an area where there is no common approach as yet, and we will look to continue engaging with peers to help the industry coalesce around shared methodologies for attributing emissions from guarantees and insurance. We have noted with interest the establishment of the PCAF Insured Emissions Working Group. We will keep our approach to estimating financed emissions under review as we work to build a common industry standard.

Using a snapshot of our portfolio as at January 2022, this approach – of weighting our direct

Sectoral distribution of UKEF's financed emissions as at January 2022 – attribution by amount at risk (15.7 $MtCO_2e$)



lending using the full amount at risk and our guarantees and insurance at a percentage consistent with their expected loss – estimates our total portfolio emissions (scopes 1, 2 and where possible 3) as approximately 3.8 megatonnes of carbon dioxide equivalent ($MtCO_2e$).

Next year, while keeping wider market development under review, we will continue developing the expected loss-based approach to attribution. For example, we will explore whether a variation based on pure probability of default may provide a better view of financed emissions for secured lending in the aviation sector.

We have also estimated our portfolio emissions on a full amount at risk basis. This alternative approach does not make any distinction between loans, insurance products and guarantees. This approach would give rise to a total portfolio emissions (scopes 1, 2 and where possible 3) disclosure of approximately 15.7 $MtCO_2e$. This alternative approach helps us to understand the carbon intensity of the individual transactions that UKEF supports, and provides a basis for action for decarbonising our financing activities over time. We have therefore based the modelling underlying our decarbonisation pathways on this approach.

Note that the relative weighting of financed emissions between sectors is different under the two attribution approaches. Because expected loss is relative to risk, these differences stem from the differences in the distribution of risk between transactions.

Because ECAs are generally counter-cyclical, the size of UKEF's portfolio will fluctuate, and so will the attributable emissions. The decarbonisation pathway for UKEF's portfolio is therefore unlikely to be linear, although directionally it should trend towards our net zero target over time. Whether transactions are in their construction or operational phase will also significantly affect the emissions expected at any given point in time and we expect that committed projects coming online will increase our baseline estimate in the short to medium term. However, any inaccuracies in this distinction can lead to material over- or under-estimation.

Estimating financed emissions is a rapidly evolving field. We are committed to working with peers to help our industry coalesce around institution- and financial class-appropriate methodologies.

Strategy, Policy and Climate Change Director Davinder Mann speaking on a panel at COP26

Data quality

In producing these estimates, we have faced data quality issues common across the market and amongst peers. Our financed emissions estimates have a weighted PCAF data quality score of approximately 4 (out of 5), which means they are highly reliant on assumptions;[6] any errors in our internal data also feed through into estimates. They comprise estimates of our customers' Scope 1 and 2 emissions for all sectors, as well as modelled estimates for customers' Scope 3 emissions for the oil and gas sector, in line with the PCAF Standard. (Customers' modelled Scope 3 emissions are upstream-only, reflecting data availability and restrictions of the environmentally-extended input–output modelling approach.)

These data quality issues mean that while we have made good progress this year in understanding the emissions associated with our portfolio, there is still a way to go. We should be able to increase data quality in future, supported by our enhanced policies and processes on climate change and market-wide progress on emissions data. We will also endeavour to continue improving the data quality of our historical transactions. This means that our baseline estimate for January 2022 will likely change in future years, as the information available and our and others' understanding of it improves.

Decarbonisation pathway

UKEF has committed to setting interim decarbonisation targets out to 2030, to guide us on our journey to net zero by 2050.

This reporting year, we worked with our external advisors to establish an initial set of sectoral decarbonisation targets for 2030. This involved projecting UKEF's portfolio emissions into the future and using the International Energy Agency's (IEA) Net Zero Emissions Scenario to develop a pathway that is consistent with a net zero global economy by 2050.

UKEF's mission is fundamentally to support UK exporters and suppliers. All our activities are determined by our mandate and our primary legislation and, as an ECA, we are inherently demand-led. The business that we do is dependent on the economic context in which we operate, including the requirements of the developing markets where our support is primarily provided and their respective priorities.

Consistent with the principle of targeting efforts where they are most material, UKEF is setting ambitious targets to reduce our financed emissions on a sectoral basis, from our January 2022 starting point, to:

- reduce absolute emissions (tCO_2e) of our oil and gas sector exposure 75% by 2030
- reduce economic emissions intensity (tCO_2e/£AAR) of our power sector exposure 58% by 2030

These sector targets cover UKEF's most carbon-intensive exposure, representing approximately 40% of our estimated financed emissions as at January 2022. As part of our drive to achieve these targets, we are implementing the government's policy on aligning UK international support for the clean energy transition.[7] Our expectation of remaining exposure in 2030 in sectors in scope of this policy is based on those transactions already in our portfolio, and on the limited exemptions to the policy through which the government will continue to support relevant fossil fuel energy sector-related activities in specific circumstances.

Within our operating constraints, we are taking steps to limit our net portfolio emissions, including by:

- engaging with our customers to support decarbonisation of their activities
- increasing our financing of low-carbon sectors through the orientation of our origination, marketing activities and product availability
- supporting development of the low-carbon UK supply chain through our products and partnerships with the government and other stakeholders

We will look to include all emissions in the scope of targets over time, based on materiality and impact, as data and methodologies allow.

The UK's world-leading aerospace sector is a major strength of the UK economy and exports are integral to the sector. As UKEF's portfolio reflects the UK's exporters, aviation is a particularly important sector for us and will likely continue to be so in the future – it currently represents approximately 39% of our total exposure (AAR). Aviation is also widely acknowledged by the IEA and others as one of the more difficult sectors to decarbonise globally. Current constraints on the availability and scalability of technologies and sustainable aviation fuel mean decarbonisation is likely to be slower than in some other sectors and not begin materially until the 2030s.

We are committed to working with aerospace customers to help decarbonise the sector and achieve customers' own emissions reduction commitments. Within the next 12 months, and following further analysis of our portfolio and decarbonisation options, we will set an emissions intensity-based decarbonisation target for our aviation exposures, recognising the shorter-term challenges of decarbonising the industry and the likelihood of progress towards decarbonisation being weighted towards the later end of the 2050 target period.

We fully expect that our progress towards all of our targets will be non-linear in the short to medium term, as existing projects on our books that are currently in construction come into operation, transactions are restructured, and our progress tracks the non-linear decarbonisation of the global economy.

As set out in our Climate Change Strategy, our guiding principle will be to continue to support UK exporters and suppliers through the global transition to net zero and to embed consideration of climate change into our business. This means that in addition to annual reporting, we will take these targets into account in individual underwriting decisions alongside the full range of other policy, financial and other factors that we consider.

Other metrics and targets

Our focus this year has been on developing metrics and targets to guide the decarbonisation of UKEF's portfolio at a strategic level. UKEF also uses a selection of other metrics to track and quantify our delivery of climate-related objectives – for example, our target for 50% of our filtered origination pipeline to be in clean growth and climate adaptation.

We recognise that portfolio emissions are just one way to understand the department's impact on climate change and its exposure to climate-related risks. Our consideration of transactions will take into account many other relevant factors.

Additionally, as the UK's ECA, we have an important role to play in supporting the transition to net zero. Our success in achieving that is not easily captured by our financed emissions. We note with interest the recent launch of the Transition Plan Taskforce, co-chaired by the Economic Secretary to the Treasury. We will work with the wider government to support the creation of good practice standards for assessing climate transition.

We will also look at more ways of measuring our performance in delivering our Climate Change Strategy. For example, as data and available methodologies allow, we will continue to work with industry peers to better understand and, where relevant, quantify our exposure to climate-related risk.

Across these metrics, we will review on an ongoing basis whether setting additional targets will support the delivery of our business objectives.

Next steps

- Continue to build and improve our portfolio emissions estimates over time
- Work with peers to further develop industry standards for financed emissions
- Take our interim decarbonisation targets into account in our decision-making and report on progress
- Set interim decarbonisation targets for the aviation sector exposure within the next 12 months, and look to bring all emissions into the scope of decarbonisation targets over time
- Continue work to measure and quantify our delivery of our Climate Change Strategy where appropriate, including with regard to climate-related risk
- Consider implementing additional metrics and targets where relevant

Notes

1 UKEF. Climate Change Strategy 2021 to 2024. September 2021 [gov.uk/government/publications/uk-export-finance-climate-change-strategy-2021-to-2024]
2 Those transactions that have progressed beyond conception to realisation.
3 NGFS Climate Scenario definitions available at [ngfs.net/ngfs-scenarios-portal/].
4 Defined under the OECD Common Approaches as those projects with estimated operational CO_2e emissions greater than 25,000 tonnes per year.
5 Partnership for Carbon Accounting Financials. The Global GHG Accounting and Reporting Standard for the Financial Industry, first edition. November 2020 [carbonaccountingfinancials.com/standard]
6 PCAF's data quality score guide is available within the Global GHG Accounting and Reporting Standard for the Financial Industry (see note 5).
7 BEIS. How the government will implement its policy on support for the fossil fuel energy sector overseas. March 2021 [gov.uk/government/publications/how-the-government-will-implement-its-policy-on-support-for-the-fossil-fuel-energy-sector-overseas]

Export Guarantees Advisory Council annual report

This year, the Export Guarantees Advisory Council (EGAC) has considered and contributed to UKEF's thinking on a range of issues, as well as strengthening its relationship with the UKEF Board and UKEF officials.

Alistair Clark
Chair, Export Guarantees Advisory Council

As Chair of this Council, I joined and regularly briefed Board meetings as an ex-officio member. Board members have also attended and participated in EGAC meetings, a trend that has quickly added value and that we will continue in future.

The Council met formally four times during the financial year 2021-22 and contributed informally to strategic policy discussions throughout the year. The costs of operating the Council during 2021-22 amounted to around £3,000, largely to reimburse the cost of travel and meeting expenses. The fees paid to Council members can be found on page 151.

In September 2021 we met in person for the first time in 18 months, along with the Chair of the UKEF Board, Noël Harwerth, and met the new Minister for Exports, Mike Freer MP. The event enabled Minister Freer to be fully sighted on EGAC's role from early in his tenure. We will continue to develop this important relationship over the coming year.

Despite the continued challenges caused by the pandemic, EGAC was encouraged by UKEF officials' continued consideration of environmental, social and transparency issues. The Council finishes the reporting period confident that when doing business, UKEF applies fair, robust and relevant policies in relation to environmental impacts and human rights, bribery and corruption, climate change, sustainable lending and transparency.

- For details of EGAC's responsibilities, priorities and membership, see the government's website.[1]

Council members

Chair:

- **Dr Alistair Clark**
  Independent Environmental, Social and Governance Advisor

Members:

- **Dr Ben Caldecott**
  Associate Professor and Senior Research Fellow
  University of Oxford Smith School of Enterprise and the Environment
- **Ms Vanessa Havard-Williams**
  Linklaters Partner and specialist in sustainability law and policy, risk management and sustainable finance
- **Mr John Morrison**
  Executive Director
  Institute for Human Rights and Business
- **Mr Stephen Prior**
  Partner
  Prinia Consulting LLP
- **Dr Roseline Wanjiru**
  Associate Professor (Reader) of International Business and Economic Development at Newcastle Business School, Northumbria University

We look forward to welcoming two new members to the Council during the year 2022-23.

International Trade Committee

On 28 April 2021, I gave evidence at a hearing of the International Trade Committee (ITC) alongside representatives from Spotlight on Corruption and the Head of the Institute for Trade and Innovation at Offenburg University.

I explained how EGAC ensures that UKEF is directing enough resources to address its environmental, social and human rights (ESHR) commitments and responsibilities.

The Committee enquired whether UKEF had sufficiently robust systems to identify and address financial crime risk. I reported that I believe it does, but acknowledged that UKEF could engage better with stakeholders to increase transparency in this area.

The session formed part of a broader inquiry into UKEF's work, as detailed in the Governance Statement on page 129.

Climate change

Early in the year, the Council contributed to the development of UKEF's Climate Change Strategy. Members reviewed and critiqued the strategy and its commitments at the quarterly meetings and bilaterally in between.

Since the publication of the strategy in September 2021, EGAC members have monitored its implementation and made recommendations, including:

- considering transition planning
- integrating plans and metrics into operations and priorities

EGAC members welcomed UKEF's active participation in COP26 – particularly its work to achieve progress on climate change in the wider ECA community. Members encouraged officials at the conference to consider climate change as a social and human rights risk as well as an environmental risk.

In December 2021, Dr Ben Caldecott joined approximately 150 UKEF staff for an online Climate Change Forum in which he reflected on COP26 and discussed the Climate Change Strategy and its implementation. Following last year's inaugural Task Force on Climate-related Financial Disclosures (TCFD) report, the Council engaged with UKEF officials on their work towards UKEF's second TCFD report (see page 97). Council members recognise the challenges of TCFD implementation, especially as UKEF operates in environments where data can be a challenge, and advised on good practice for preparing the report.

The Council ended the reporting period content that climate factors are routinely considered in decision-making across the department. We are confident in UKEF's commitment to playing an appropriate part in global action to minimise and mitigate the most serious risks associated with climate change.

Environmental, social and human rights

The Council noted a significant increase in the number of cases that had been reviewed for ESHR risks and impacts during the year. This is because UKEF has expanded its screening to include smaller, short-term and Export Development Guarantee deals, as well as cases in aerospace and defence, which are not covered by the scope of the OECD Common Approaches for Environmental and Social Due Diligence or the Equator Principles.

In September 2021, the Council welcomed a paper on human rights risks in the solar power industry. Members discussed the potential risks for UKEF and exporters in supporting transactions in the industry, in light of modern slavery risks uncovered in key supply chains. The Council noted that the cotton industry was also vulnerable to similar human rights risks and gave advice on actions to mitigate these risks.

Council members reviewed UKEF's first Modern Slavery statement and were glad to see progress on the issue. We gave guidance on horizon scanning for modern slavery related risks across different sectors and options for due diligence.

The Council reflected on UKEF's significant contribution in international fora, including:

- the OECD Environmental & Social Practitioners' Group, where UKEF set up a working group on human rights in the solar sector
- the Equator Principles Steering Committee, where member institutions voted for UKEF to re-join the committee in a management support role, having stepped down for 12 months as required by the Equator Principles Association's governance rules

Transparency

In May 2021, the Council was briefed on UKEF's approach to financial crime compliance. The Council valued the deep dive into the processes for screening and monitoring for risk and learning about transactional examples. In March 2022, we revisited compliance policies and training and provided guidance for further strengthening the language and internal understanding in this area.

Civil society engagement

During 2021-22, the Council contributed to UKEF's developing strategy for engagement with civil society organisations. Council members welcomed the proactive approach to this important stakeholder group and will continue to support and monitor this engagement in the next year and beyond.

Notes

1 EGAC. About us [gov.uk/government/organisations/export-guarantees-advisory-council/about]